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Receiver General for Canada
Hon. Michel Côté

public accounts of canada

1987

Volume III

The President of the Treasury Board :

Annual Report to Parliament on Crown Corporations and other Corporate Interests of Canada

Canada

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INTRODUCTION TO THE PUBLIC ACCOUNTS

Nature of the Public Accounts

The Public Accounts is the report of the Government of Canada prepared each fiscal year by the Receiver General as required by Section 55 of the Financial Administration Act.

The report covers the fiscal year of the Government, which ends on March 31, and is prepared from data contained in the accounts of Canada and from more detailed records maintained in departments and agencies. The accounts of Canada is the centralized record of the Government's financial transactions maintained by the Receiver General in which the transactions of all departments and agencies are summarized. Each department and agency is responsible for agreeing its accounts to the control accounts of the Receiver General, and for maintaining detailed records of the transactions in their accounts.

The report covers the financial transactions of the Government during the year. In certain cases, parliamentary authority to undertake transactions was provided by legislation approved in earlier years.

Format of the Public Accounts

The Public Accounts is produced in three volumes.

Volume I presents a summary analysis of the financial transactions of the Government. **Volume II** is published in two parts. **Part I** presents the financial operations of the Government, segregated by ministry while **Part II** presents additional information and analyses.

Volume III responds to Subsection 153(1) of Part XII of the Financial Administration Act. In it, the President of the Treasury Board provides Parliament with an annual consolidated report on the businesses and activities of all parent Crown corporations. The report includes a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation. Employment and financial data, including aggregate borrowings of parent Crown corporations and other information, are also provided.

THE PRESIDENT'S MESSAGE

This is the fourth Consolidated Annual Report to Parliament pursuant to Subsection 153(1) of Part XII of the *Financial Administration Act* (FAA). I am pleased to present this report on the businesses and activities of Canada's portfolio of parent Crown corporations. For completeness, I have continued a practice initiated last year of including information on the eight parent Crown corporations which are exempt from the reporting and most other provisions of Part XII of the FAA.

As in previous years, this report is divided into two parts. The first part provides financial and other information on all Crown corporations, as reported by each corporation at its financial year-end on or before July 31, 1987. The second part contains a list of all corporations whose shares are held, wholly or in part, by, on behalf of, or in trust for the Crown or for any Crown corporation.

THE PORTFOLIO

The most recent information, as of September 1, 1987, shows that 58 Crown corporations make up the portfolio. All are included in this report. Forty-six of them are listed in Schedule C of the FAA and are therefore required to conduct their businesses and activities in a manner consistent with that Act and its regulations. Four corporations have been directed by the Governor-in-Council to report their affairs as if they were listed in Schedule C. They are: Petro-Canada International Assistance Corporation and the three subsidiaries of Canada Lands Company Limited. As well, as noted previously, information on the eight corporations that are exempt from Part XII is included in this report. Finally, three scheduled corporations are in the process of being dissolved. They are: Canadian National (West Indies) Steamships, Ltd., Canagrex and Mingan Associates Limited.

OVERVIEW

At their financial year-ends, the corporations comprising the portfolio (but excluding the Bank of Canada) reported assets totalling $59.6 billion, of which financial institutions accounted for 42 per cent.

Data for the same period indicate that all Crown corporations and their wholly-owned subsidiaries employed 183,000 people, a decrease of 17,000, or 8.5 per cent, from the last report. This results, in the main, from the privatization of both Canadair Limited and The de Havilland Aircraft of Canada, Limited, (subsidiaries of Canada Development Investment Corporation) as well as from a slight decline in employment in general during the past year.

Budgetary funding from Canada to all corporations amounted to $4.7 billion during this reporting period, a decrease of $0.8 billion from last year's total. The decrease reflects reduced funding for Canadair Limited and The de Havilland Aircraft of Canada, Limited, which were privatized during the reporting period, for the Canada Mortgage and Housing Corporation, and other relatively minor variances. Funding provided to the eight exempt corporations was $1.2 billion, an increase of 9.3 per cent from the last report.

More complete information on individual parent Crown corporations may be found in their annual reports which are tabled in Parliament, pursuant to subsection 152(1) of Part XII of the FAA.

CORPORATE HIGHLIGHTS

While privatization issues dominated much of the activity related to Crown corporations, there were other significant developments during the past year.

The Government of Canada recovered $133 million from Canada Ports Corporation and the local port corporations in December 1986. This sum represented the balance of the cash recovery exercise initiated in the 1985 Budget. The Port of Saint John (N.B.) was established as a local port corporation in December 1986. As a result of this addition to the number of local port corporations, Canada Ports Corporation has retained responsibility for the management of seven non-corporate ports as well as overseeing the national system of ports.

In May, the government announced its decision to allocate $361 million to VIA Rail Canada Inc. for the refurbishing of long-haul cars, the acquisition of new high-power locomotives, the continuation of station upgrading, infrastructure improvement and construction of maintenance facilities. It is expected that these capital investments will lead to increased passenger comfort and equipment reliability.

Aided by low fuel prices, a $150-million cost reduction program and strong traffic demand from Expo 86, Air Canada earned a record profit in the last six months of 1986 and recorded a $40.4 million net profit for the year. The corporation anticipates a higher net profit in 1987 as passenger revenues have remained strong.

Marine Atlantic Inc. reduced its reliance on government operating subsidies from $143 million in 1985 to $123 million in 1986. Operating expenses remained constant with commercial revenues increasing by 12 per cent. Passenger traffic increased, particularly to Newfoundland, with the introduction of the new M.V. Caribou ferry.

The government approved a seven-year, $175-million rehabilitation program for the St. Lawrence Seaway Authority for the Welland Canal in November 1986. During the year, $14.3 million was spent there on lock wall reinforcing and restoration, and on canal bank stabilization and rehabilitation of ancillary structures.

Losses incurred by the Farm Credit Corporation in the amount of $132.5 million for the year have now eroded the corporation's capital base and resulted in a negative shareholder's equity of $124.8 million as of March 31, 1987.

Canada Post Corporation continued to make progress towards the goal of financial self-sufficiency in 1988-89. The corporation's operating deficit was $129 million, or 4 per cent of its total expenses, in 1986-87, down from $210 million in 1985-86. Mail volumes continued to grow slightly.

The National Capital Commission received a revised mandate focusing on the three principles of the National Capital as Canada's Meeting Place, Communicating Canada to Canadians, and Safeguarding and Preserving the Capital. The Commission's responsibility for the physical evolution of the National Capital was confirmed and enhanced, through its revised mandate from the government, to develop the National Capital as a national symbol. Additionally, the government decided to transfer to the Commission responsibility for the care of Canada's official residences in the National Capital Region.

Petro-Canada's financial performance showed considerable improvement over the previous year, with earnings after tax rising 28 per cent to $123 million. This reflected both cost-cutting by the corporation as well as the partial recovery of international oil prices. The corporation announced, in March 1987, that it will move ahead on the development of the Terra Nova oil field off Newfoundland. Drilling of two delineation wells in the summer of 1987 could lead to a development plan for the Terra Nova field in 1988.

In 1986, the Canadian National Railway Company (CN) sold its CN Route trucking subsidiary to a group of Canadian private sector investors. In early 1987, CN sold the Newfoundland Dockyard to Marine Atlantic Inc. and, in July 1987, it announced that agents had been retained for the sale of CN Hotels. Proceeds from the sale will be used to reduce the corporate debt.

During 1986, the Canada Deposit Insurance Corporation (CDIC) was required to make payments to insured depositors as a result of financial difficulties experienced by three member institutions: the Columbia Trust Company, the Bank of British Columbia, and the North West Trust Company. More recently, another member institution, Principal Savings and Trust Co., was ordered to wind-up, and payments in this regard will be required from CDIC.

The International Centre for Ocean Development (ICOD) completed its second year of operation, focusing exclusively on management of the 200-mile economic coastal zone. ICOD is establishing a unique identity within the Canadian and international development assistance structure. The corporation is assisting developing countries to build institutions and to elaborate long-range policy and plans for the development of their marine sectors.

PRIVATIZATION

The creation, in December 1986, of the Office of Privatization and Regulatory Affairs in support of the Minister of State (Privatization) has continued to give impetus to the government's privatization program.

In the period since the appointment of the Honourable Barbara McDougall in June 1986, the number of privatized Crown corporations has risen to 11, and more candidates for privatization are under active and detailed review.

The following privatizations have been completed since the last report:

— Nanisivik Mines Limited. The government's 18 per cent interest in the corporation was sold in October 1986, for $6 million, to Mineral Resources International Limited.

— CN Route. The firm was sold in December 1986, for $29 million, to Route Canada Holdings Inc.

— Canadair Limited. The government sold the corporation in December 1986, to Bombardier Inc., for $120 million cash plus future royalty payments on Challenger sales.

— Northern Canada Power Commission. The Yukon portion of the corporation was transferred to territorial ownership in March 1987, for $19.5 million cash and notes of $56 million.

— Teleglobe Canada. The firm was sold in April 1987 to Memotec Data Inc., for $488.3 million cash, a $106 million dividend and $16.6 million in shares.

— Fisheries Products International. Also in April 1987, a public share offering was completed, resulting in net proceeds to the government of $104.4 million.

— Canada Development Corporation. Two share offerings have been completed: 21.8 million shares were sold in September 1986 with net proceeds of $246 million; and 1.4 million shares were sold in June 1987 for $15.8 million.

Those divestitures, coupled with four previous privatizations of federal Crown corporations (Northern Transportation Company Limited, The de Havilland Aircraft of Canada, Limited, Pêcheries Canada Inc. and Canadian Arsenals Limited), have produced more than $1.3 billion in net proceeds for the federal government.

Other Crown holdings are currently under review as potential candidates for privatization in 1987-88 and beyond. In every case, a careful review encompassing all aspects of a Crown corporation's operations and purpose is carried out before the Minister of State (Privatization) makes her recommendations to Cabinet.

PUBLIC POLICY

Official Languages

Parent Crown corporations and their wholly-owned subsidiaries are subject to the provisions of the *Official Languages Act*. They are therefore required to provide services to the public in both official languages at their head offices, in the National Capital Region, and elsewhere in Canada where there is significant demand. In general, services provided in English are satisfactory, services provided in French have improved, but improvements are still required in regions of significant demand outside the National Capital Region and Quebec.

The Treasury Board Secretariat continues to assist Crown corporations with the implementation of the government's official languages objectives. Major Crown corporations were consulted with respect to the new Bill C-72 that the government introduced on June 25, 1987 to update the *Official Languages Act*.

Employment Equity

This year, Treasury Board received from Crown corporations their first annual reports respecting employment equity. The reports reflect the efforts of Crown corporations to meet employment equity goals, despite their divergent mandates and often difficult circumstances.

During the past year, Crown corporations continued to meet regularly to discuss issues and initiatives of common concern in implementing employment equity programs, and to receive updates from the Treasury Board Secretariat and other relevant resource organizations. During the summer of 1987, recommendations drawn from the annual reports of Crown corporations were submitted to Treasury Board for approval. Highlights of those initiatives are as follows:

Marine Atlantic Inc.—The marine industry is one of several industries steeped in tradition. This has tested the creativity and initiative of Marine Atlantic to develop an action plan. Its plan, however, includes the expansion and development of a co-op education program, ensuring that women represent at least 50 per cent of placements. This initiative could serve as a model for other Crown corporations within similar industrial sectors.

Canadian Broadcasting Corporation (CBC)—The CBC developed a native broadcaster training program in the North a number of years ago, and has worked in association with others to develop a two-year journalism program at Arctic College. The first students were accepted in September 1987. One of the measures that the CBC has also undertaken to address the visible minorities issue is to conduct internal studies to identify qualified members of this designated group from which the CBC can draw to staff positions throughout the corporation.

Defence Construction (1951) Limited—The corporation is significantly smaller than the majority of Crown corporations designated to submit an action plan. In planning for disabled persons, the corporation has identified basic activities whereby the participation rate of this designated group may be increased within any work environment. The activities include eliminating non-essential physical barriers, ensuring technical aids are available if required, and including a representative from this designated group on employee selection committees.

While the foregoing represents advancements made by individual corporations, all Crown corporations are making efforts towards the implementation of employment equity. Through the continued commitment of senior management, employment equity coordinators and all other employees, I trust Crown corporations will place themselves in a strong leadership role with respect to employment equity initiatives.

MIXED AND JOINT ENTERPRISE CORPORATIONS

As indicated above, the second part of this report lists corporations which are only partially owned by Canada. Canada's investment in these corporations, as of July 1987, was valued at approximately $265 million, a reduction of approximately $400 million since April 1, 1986, due mainly to the sale of Canada Development Corporation shares and the privatization of Fisheries Products International. There are now 13 mixed and joint enterprise corporations, a reduction of one from the last report.

During the past year, Treasury Board instituted a policy resulting in an improved reporting regime for mixed and joint enterprises. The annual reports of all such corporations will now be tabled in Parliament. The submission of quarterly financial reports to Treasury Board is another new requirement. A five-year corporate plan will also be required from corporations seeking new equity investment, and when significant financial assistance is provided by Canada.

REGULATIONS

Since the last Annual Report, the following regulations have been promulgated:

Crown Corporation Summaries Regulations, 1986 (labelling, timing)—29/12/86 SOR/87-37 (superseding Crown Corporation Summaries Regulations (timing)—24/1/84 SOR/85-128).

A list of other regulations, promulgated pursuant to Part XII of the FAA, is as follows:

Crown Corporation General Regulations (notification, disposal of property by Agent corporations, remuneration and by-laws)—31/08/84 SOR/84-743, amended 05/07/85 SOR/85-643.

Crown Corporation Borrowing Regulations (transactions, approvals, exemptions)—31/08/84 SOR/84-742, amended 07/03/85 SOR/85-230, amended 12/09/85 SOR/85-902.

Crown Corporation Borrowing Regulations, amended—16/01/86 SOR/86-143.

Crown Corporation Corporate Plan and Budget Regulations (form, contents, timing and period covered)—29/07/86 SOR/86-828.

CONCLUSION

Two major issues continue to dominate the Crown corporation environment: privatization initiatives and the implementation of Part XII of the FAA. It is clear that the government has met with success in honouring its commitment to privatization, and that it will pursue this objective in the future.

The effect of the implementation of the improved control and accountability framework enshrined in Part XII of the FAA and its regulations is far-reaching. Part XII has been in place for three years now, and I am happy to report that there is continued improvement in the quality and timeliness of Crown corporations' submissions. Corporate plans, budgets and annual reports are proving to be key accountability and control instruments, as envisaged by the Act. They are also the vital linkages to overall corporate performance. As a result, considerable progress has been made in improving the accountability of Crown corporations to Parliament itself.

Don Mazankowski

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PART I

ANNUAL CONSOLIDATED REPORT ON THE BUSINESSES AND ACTIVITIES OF ALL PARENT CROWN CORPORATIONS

1. INTRODUCTION TO PART I

Part I of this Annual Report is a document of record on the financial affairs of all parent Crown corporations, comprised as follows:

- Tables 1 and 2 respond to subsection 153(3)(b) of the *Financial Administration Act* (FAA) in presenting for 60 Crown corporations aggregate financial and employment data relative to their individual financial years. The 60 are:
    - 49 parent Crown corporations listed in schedule C of the FAA in the twelve months ending July 31, 1987;
    - four subsidiaries of listed corporations which, by Orders pursuant to s. 97(2) of the FAA, are required to report their affairs as if they are parent Crown corporations; and,
    - seven parent Crown corporations which, by s. 96(1) of the FAA are exempted from the provisions of divisions I to IV of the FAA.
- Table 3 presents financial data for the same 60 corporations but, in contrast to the previous tables, all of the data are as at the single date March 31, 1987.
- Audited financial statements for the period covered by the report for each of the above 60 corporations and for the Bank of Canada.
- A Summary Page for each corporation precedes its financial statements. This page presents a financial summary of several years' performance of the particular corporation, along with basic information about the corporation.

Tables 1 and 2 show that at the close of the period covered by their reports the 60 corporations had total assets of $60.2 billion and their combined employment was 181 thousand; their obligations to private sector lenders increased in the report periods by $1.25 billion while their obligations to Canada were reduced by $1.41 billion. Budgetary funding to the corporations totalled $4.7 billion, which is $0.8 billion less than the previous Report's total. The reduction reflects reduced funding for Canada Mortgage and Housing Corporation and for the aircraft subsidiaries of Canada Development Investment Corporation which were sold to private sector interests in this report period.

2. PARENT CROWN CORPORATION DATA ON INDIVIDUAL FINANCIAL YEAR BASIS

Tables 1 and 2

Tables 1 and 2, which follow, respond to the requirement in the *Financial Administration Act* (FAA) that financial data, including employment and aggregate borrowing by corporations, be reported. The Act calls for data for individual corporations "for their financial years ending on or before July 31," 1987, and totals of these data, therefore, do not relate to a single 12-month period.

Data are presented for 60 corporations comprising: 49 corporations which were listed in schedule C of the FAA in the report period; four subsidiaries, being Petro-Canada International Assistance Corporation and three subsidiaries of Canada Lands Company Limited, all of which have been directed to report as if they are parent corporations, and seven of the eight corporations which, pursuant to s. 96 of the FAA, are exempted from scheduling. The other exempt corporation, the Bank of Canada, is excluded from the tables because of the unique nature of its financial data (see its Summary Page).

Reporting of data is on the following principles:

- **Year-end dates:** December year-ends relate to 1986; other year-ends relate to 1987, unless footnotes indicate otherwise.
- **Employment data** describe the number of full-time employees. They relate to the parent corporation and all its subsidiaries. Special cases are footnoted. Bank of Canada (2,320 employees) is excluded.
- **Net new borrowing data** comprise changes during the financial period in outstanding principal amounts of capital leases and long-term and short-term borrowings. To the extent possible, they do not include adjustments for exchange rate variations and they take no account of transfer of assets and related debts such as those occurring between the port administrations.
- **Budgetary funding from Canada** comprises cash paid to the parent corporation and, as well, that paid directly to its subsidiaries. Payments for which a class or kind of recipient is eligible are excluded from these data. (Examples of such exclusions are Petroleum Incentive Payments and those for Rehabilitation of Prairie Branch Railway Lines.) Canada Post data include cultural mail subsidies.
- **Shareholder's equity.** For four corporations, Canadian Dairy Commission, Canada Council, The Canadian Wheat Board and Freshwater Fish Marketing Corporation, the corporate mandate and operation cause the excess of assets over liabilities to be surplus which is due to clients and not Equity of Canada.

Table 1

The financial position of parent Crown corporations
(Data as at year-end; for financial years ending on or before July 31, 1987; $ million.)

FAA Schedule	Year-end	Total Assets	Current Liabilities	Long Term Liabilities	Shareholder's Equity
C-I corporations:[6]					
Atlantic Pilotage Authority	December 31	1.4	0.7	1.0	(0.3)
Atomic Energy of Canada Limited	March 31	1,018.1	150.9	671.5	195.7
Canada Deposit Insurance Corporation[3]	December 31	1,530.0	279.8	2,495.5	(1,245.3)
Canada Harbour Place Corporation	March 31	86.0	5.7	nil	80.3
Canada Lands Company Limited	March 31	negl.	negl.	negl.	nil
Canada Lands Company (Mirabel) Ltd.[1]	March 31	5.4	5.4	nil	nil
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	March 31	0.6	0.6	nil	nil
Canada Lands Company (Vieux-Port de Québec) Inc.	March 31	1.8	1.6	nil	0.2
Canada Mortgage and Housing Corporation	December 31	9,815.1	237.8	9,527.3	50.0
Canada Museums Construction Corporation Inc.	March 31	173.2	15.8	nil	157.4
Canada Post Corporation[4]	March 31	2,628.5	643.2	386.9	1,598.4
Canadian Arsenals Limited[2]	March 31	135.9	61.3	12.6	62.0
Canadian Commercial Corporation	March 31	493.8	461.7	0.7	31.4
Canadian Dairy Commission[2]	July 31	259.8	259.8	nil	nil
Canadian Livestock Feed Board	March 31	2.4	2.0	0.1	0.3
Canadian National (West Indies) Steamships, Ltd.	December 31	1.1	0.3	negl.	0.8
Canadian Patents and Development Limited	March 31	0.8	0.6	0.2	negl.
Canadian Saltfish Corporation	March 31	24.4	27.9	0.7	(4.2)
Canagrex	March 31	0.2	negl.	negl.	0.2
Cape Breton Development Corporation	March 31	581.0	69.9	nil	511.1
Defence Construction (1951) Limited	March 31	1.5	1.6	2.8	(2.9)
Export Development Corporation[4]	December 31	7,176.1	2,553.3	3,724.9	897.9
Farm Credit Corporation	March 31	4,914.1	603.9	4,435.0	(124.8)
Federal Business Development Bank	March 31	1,920.2	818.5	860.1	241.6
Freshwater Fish Marketing Corporation	April 30	18.9	18.9	nil	nil
Great Lakes Pilotage Authority, Ltd.	December 31	5.2	2.7	3.5	(1.0)
Harbourfront Corporation	March 31	37.1	35.7	negl.	1.4
International Centre for Ocean Development	March 31	0.1	0.1	negl.	negl.
Laurentian Pilotage Authority	December 31	7.9	6.5	0.6	0.8
Marine Atlantic Inc.	December 31	339.4	27.2	318.1	(5.9)
Mingan Associates, Ltd.	December 31	nil	nil	nil	nil
National Capital Commission	March 31	298.3	26.0	5.2	267.1
Northern Canada Power Commission	March 31	142.9	17.8	100.2	24.9
Pacific Pilotage Authority[5]	December 31	4.4	1.3	0.5	2.6
Petro-Canada International Assistance Corporation	December 31	8.9	8.9	nil	negl.
Royal Canadian Mint	December 31	116.8	84.6	31.2	1.0
St. Anthony Fisheries Limited	March 31	nil	nil	nil	nil
St. Lawrence Seaway Authority, The	March 31	652.8	13.8	221.7	417.3
Standards Council of Canada	March 31	3.0	0.8	0.3	1.9

VIA Rail Canada Inc.	December 31	970.6	219.5	7.9	743.2
Total C-I corporations[6]		33,377.7	6,666.1	22,808.5	3,903.1
C-II corporations:					
Air Canada	December 31	2,922.9	646.5	1,722.9	553.5
Canada Development Investment Corporation	December 31	336.4	49.7	nil	286.7
Canada Ports Corporation[5]	December 31	100.0	6.6	26.2	67.2
Canadian National Railway Company	December 31	7,842.6	1,498.2	3,339.8	3,004.6
Halifax Port Corporation	December 31	60.6	2.0	35.4	23.2
Montreal Port Corporation	December 31	212.2	16.0	243.8	(47.6)
Petro-Canada	December 31	8,139.0	1,034.0	3,394.0	3,711.0
Port of Quebec Corporation	December 31	65.9	3.4	0.7	61.8
Prince Rupert Port Corporation	December 31	80.7	0.7	86.4	(6.4)
Saint John Port Corporation	December 31	92.5	2.5	88.4	1.6
St. John's Port Corporation	December 31	14.4	0.6	1.9	11.9
Teleglobe Canada	December 31	502.4	112.2	99.9	290.3
Vancouver Port Corporation	December 31	236.9	11.6	109.1	116.2
Total C-II corporations		20,606.5	3,384.0	9,148.5	8,074.0
Total Schedule C corporations		53,984.2	10,050.1	31,957.0	11,977.1
Exempt (Unscheduled) Corporations					
Canada Council	March 31	157.6	26.9	130.7	nil
Canadian Broadcasting Corporation	March 31	754.6	164.6	129.5	460.5
Canadian Film Development Corporation	March 31	35.7	6.9	0.3	28.5
Canadian Institute for International Peace and Security	March 31	1.6	0.2	nil	1.4
Canadian Wheat Board[2], The	July 31	5,234.4	1,281.1	3,953.3	nil
International Development Research Centre	March 31	14.3	8.9	2.8	2.6
National Arts Centre Corporation	August 31	6.7	5.1	0.5	1.1
Total, exempt corporations		6,204.9	1,493.7	4,217.1	494.1
Grand Total, parent Crown corporations except Bank of Canada		60,189.1	11,543.8	36,174.1	12,471.2

See Notes to Tables 1 and 2, following these tables.

Table 2

Parent Crown corporations

Employment, Borrowing and Budgetary Funding
(for their financial years ending on or before July 31, 1987)

FAA Schedule	Year-end	Employment	In their financial years; $ million. Net new borrowings, leases from (repaid to) private sector	from (repaid to) Canada	Budgetary funding from Canada
C-I corporations:[6]					
Atlantic Pilotage Authority[5]	December 31	77	(0.2)	negl.	0.7
Atomic Energy of Canada Limited	March 31	4,992	(1.3)	(23.3)	217.6
Canada Deposit Insurance Corporation	December 31	41	(33.7)	9.0	nil
Canada Harbour Place Corporation	March 31	18	nil	nil	13.6
Canada Lands Company Limited	March 31	nil	nil	nil	nil
Canada Lands Company (Mirabel) Ltd.[1]	March 31	23	nil	nil	6.8
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	March 31	21	nil	nil	3.3
Canada Lands Company (Vieux-Port de Québec) Inc.	March 31	30	nil	nil	5.0
Canada Mortgage and Housing Corporation	December 31	2,724	nil	(246.5)	1,355.1
Canada Museums Construction Corporation Inc.	March 31	24	nil	nil	66.0
Canada Post Corporation[4]	March 31	52,760	nil	nil	486.1
Canadian Arsenals Limited[2]	March 31	nil	2.8	nil	nil
Canadian Commercial Corporation	March 31	111	nil	nil	16.1
Canadian Dairy Commission[2,5]	July 31	69	31.7	(108.0)	292.2
Canadian Livestock Feed Board	March 31	20	nil	nil	17.2
Canadian National (West Indies) Steamships, Ltd.	December 31	nil	nil	nil	nil
Canadian Patents and Development Limited	March 31	26	nil	nil	0.5
Canadian Saltfish Corporation	March 31	42	nil	6.6	nil
Canagrex	March 31	nil	nil	nil	nil
Cape Breton Development Corporation	March 31	3,662	nil	4.4	163.9
Defence Construction (1951) Limited	March 31	208	nil	(1.1)	13.2
Export Development Corporation[4]	December 31	539	(47.3)	(74.5)	nil
Farm Credit Corporation	March 31	573	591.8	(591.2)	nil
Federal Business Development Bank	March 31	1,251	379.2	(93.0)	54.8
Freshwater Fish Marketing Corporation[5]	April 30	228	0.5	(13.8)	nil
Great Lakes Pilotage Authority, Ltd.[5]	December 31	130	nil	nil	nil
Harbourfront Corporation	March 31	157	nil	nil	1.0
International Centre for Ocean Development	March 31	22	nil	nil	4.0
Laurentian Pilotage Authority[5]	December 31	286	0.1	nil	1.3
Marine Atlantic Inc.	December 31	2,056	nil	nil	127.0
Mingan Associates, Ltd.	December 31	nil	nil	nil	nil
National Capital Commission	March 31	795	nil	nil	62.4
Northern Canada Power Commission	March 31	317	nil	(133.6)	nil
Pacific Pilotage Authority[5]	December 31	165	nil	negl.	nil
Petro-Canada International Assistance Corporation	December 31	35	nil	nil	23.5
Royal Canadian Mint	December 31	667	(0.2)	(3.7)	nil

St. Anthony Fisheries Limited	March 31	nil	nil	nil	nil
St. Lawrence Seaway Authority, The	March 31	1,197	nil	nil	13.2
Standards Council of Canada	March 31	72	nil	nil	6.7
VIA Rail Canada Inc.	December 31	5,491	3.8	nil	506.0
Total C-I corporations[6]		78,829	927.2	(1,268.7)	3,457.2
C-II corporations:					
Air Canada	December 31	22,577	201.1	(20.5)	nil
Canada Development Investment Corporation[5]	December 31	1,056	(143.9)	nil	nil
Canada Ports Corporation[5]	December 31	167	nil	(65.5)	13.0
Canadian National Railway Company	December 31	54,748	241.7	(56.5)	19.8
Halifax Port Corporation	December 31	98	nil	4.4	nil
Montreal Port Corporation	December 31	665	nil	(0.4)	nil
Petro-Canada	December 31	9,156	(305.0)	nil	nil
Port of Quebec Corporation	December 31	85	nil	nil	nil
Prince Rupert Port Corporation	December 31	12	nil	nil	nil
Saint John Port Corporation	December 31	94	nil	nil	nil
St. John's Port Corporation	December 31	18	nil	negl.	nil
Teleglobe Canada	December 31	1,110	(9.4)	(1.3)	nil
Vancouver Port Corporation	December 31	200	nil	(0.2)	0.5
Total C-II corporations		89,986	(15.5)	(140.0)	33.3
Total Schedule C corporations		168,815	911.7	(1,408.7)	3,490.5
Exempt (Unscheduled) Corporations					
Canada Council	March 31	233	3.8	nil	85.5
Canadian Broadcasting Corporation	March 31	10,778	0.9	nil	855.1
Canadian Film Development Corporation	March 31	116	nil	nil	86.0
Canadian Institute for International Peace and Security	March 31	26	nil	nil	3.0
Canadian Wheat Board[2,5], The	July 31	482	367.1	nil	58.0
International Development Research Centre	March 31	436	nil	nil	100.0
National Arts Centre Corporation[5]	August 31	288	(0.5)	nil	14.8
Total, exempt corporations		12,359	371.3	nil	1,202.4
Grand Total, parent Crown corporations (except Bank of Canada, 2,320 employees)		181,174	1,283.0	(1,408.7)	4,692.9

See Notes, following these tables.

Notes to Tables 1 and 2

1. For some corporations, audited consolidated financial statements for the period covered by this Report were not available when the Report was sent to press. Therefore, *preliminary data* for the report period are presented in respect of Canada Lands (Mirabel) Ltd.

2. Financial data presented are from audited financial statements for a period other than the report period, as follows:

   Canadian Arsenals Limited - 12 months ending March 31, 1986

   Canadian Dairy Commission - 12 months ending July 31, 1986

   The Canadian Wheat Board - 12 months ending July 31, 1986

3. The equity value for Canada Deposit Insurance Corporation takes account of the position of its Deposit Insurance Fund.

4. Funding data for Export Development Corporation are Corporate Account data. Budgetary funding to Canada Post Corporation includes cultural and special mail subsidies.

5. Employment data:

   - for Canadian Dairy Commission, Freshwater Fish Marketing Corporation, National Arts Centre Corporation and The Canadian Wheat Board are as at December 31, 1986.
   - for Canada Development Investment Corporation comprises employment in Eldorado Nuclear Limited and that in the parent corporation.
   - for Canada Ports Corporation do not include employment in the local port corporations named in these Tables.
   - for the four Pilotage Authorities include contract pilots.

6. Petro-Canada International Assistance Corporation and three subsidiaries of Canada Lands Company Limited are shown amongst C-I corporations since, though not scheduled in the report period, they have been directed, pursuant to s. 97(2) of the FAA, to report their affairs as if they are (C-I) parent Crown corporations.

3. PARENT CROWN CORPORATION DATA AS AT MARCH 31, 1987

Table 3

This table provides basic information about the corporations listed in tables 1 and 2 but, in contrast to those tables, these data are as at a single date, being March 31, 1987, the closing day of government's financial year.

The data comprise:

- values for total assets and for principal amounts outstanding of short and long-term borrowings, bank loans, notes issued and capital leases. Values are derived from audited financial statements or, where a corporation's financial year ends on a date other than March 31, from schedules confirmed by the corporation's auditors; and

- the value recorded in the accounts of Canada as the outstanding balance of loans, investments and advances made by Canada to each corporation. Subject to any related reserve created in those accounts to ensure fair presentation of the financial position of Canada, the value recorded is an asset of Canada. The aggregate of the reserves in place in respect of all of these corporations is noted at the foot of this column of data.

Table 3

Financial data, as at March 31, 1987; parent Crown corporations, $millions

FAA Schedule	From corporation financial statements	Outstanding Obligations of corporations		As in the Accounts of Canada
	Total Assets	to the private sector	to Canada	Loans, Investments and Advances
C-I corporations:				
Atlantic Pilotage Authority	1.4	0.2	0.3	nil
Atomic Energy of Canada Limited	1,018.1	23.0	626	709.6
Canada Deposit Insurance Corporation	1,018.5	987.8	1,229.5	1,203.2
Canada Harbour Place Corporation	86.0	nil	nil	nil
Canada Lands Company Limited	negl.	nil	nil	nil
Canada Lands Company (Mirabel) Ltd.	5.4	nil	nil	nil
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	0.6	nil	0.1	nil
Canada Lands Company (Vieux-Port de Québec) Inc.	1.8	nil	0.9	nil
Canada Mortgage and Housing Corporation	9,588.0	nil	9,386.4	9,411.4
Canada Museums Construction Corporation Inc.	173.2	nil	nil	nil
Canada Post Corporation	2,628.5	nil	nil	nil
Canadian Arsenals Limited[2]	nil	nil	nil	nil
Canadian Commercial Corporation	493.8	nil	nil	10.0
Canadian Dairy Commission	137.5	nil	51.1	51.1
Canadian Livestock Feed Board	2.4	nil	nil	nil
Canadian National (West Indies) Steamships, Ltd.	1.2	nil	nil	0.3
Canadian Patents and Development Limited	0.8	nil	nil	0.3
Canadian Saltfish Corporation	24.4	nil	24.0	24.0
Canagrex	0.2	nil	nil	nil
Cape Breton Development Corporation	580.9	nil	7.0	7.0
Defence Construction (1951) Limited	1.5	nil	0.3	nil
Export Development Corporation	7,155.9	4,466.5	80.0	777.0
Farm Credit Corporation	4,914.1	1,599.8	3,305.0	3,522,8
Federal Business Development Bank	1,920.2	1,563.0	51.0	345.0
Freshwater Fish Marketing Corporation	20.9	nil	0.4	3.0
Great Lakes Pilotage Authority, Ltd.	2.5	nil	nil	nil
Harbourfront Corporation	37.1	nil	nil	nil
International Centre for Ocean Development	0.1	nil	nil	nil
Laurentian Pilotage Authority	3.9	0.4	nil	nil
Marine Atlantic Inc.	327.5	5.1	nil	327.6
Mingan Associates, Ltd.	0.4	nil	nil	nil
National Capital Commission	298.3	nil	nil	nil
Northern Canada Power Commission	142.9	nil	103.2	129.3

Pacific Pilotage Authority	5.1	nil	nil	nil
Petro-Canada International Assistance Corporation	8.9	nil	nil	nil
Royal Canadian Mint	112.9	nil	82.2	27.2
St. Anthony Fisheries Limited	nil	nil	nil	nil
St. Lawrence Seaway Authority, The	652.8	nil	210.0	684.7
Standards Council of Canada	3.0	nil	nil	nil
VIA Rail Canada Inc.	896.6	nil	nil	80.8
Total C-I corporations	32,267.3	8,645.8	15,157.4	17,314.3
C-II corporations:				
Air Canada	2,893.8	1,455.3	175.6	504.6
Canada Development Investment Corporation	333.4	nil	nil	395.7
Canada Ports Corporation	96.6	nil	19.5	19.5
Canadian National Railway Company	7,806.4	3,037.7	195.2	2,493.5
Halifax Port Corporation	60.3	nil	35.0	30.0
Montreal Port Corporation	209.7	nil	140.4	140.7
Petro-Canada[1]	8,329.2	1,995.0	nil	4,299.1
Port of Quebec Corporation	65.2	nil	nil	nil
Prince Rupert Port Corporation	81.2	nil	27.1	27.1
Saint John Port Corporation	93.2	nil	58.4	58.3
St. John's Port Corporation	14.2	nil	1.5	1.5
Teleglobe Canada	517.8	54.3	2.0	2.0
Vancouver Port Corporation	236.9	nil	80.8	80.8
Total C-II corporations	20,737.9	6,542.3	735.5	8,052.8
Total Schedule C corporations	53,005.2	15,188.1	15,892.9	25,367.1
Exempt (Unscheduled) Corporations				
Canada Council	157.6	nil	nil	nil
Canadian Broadcasting Corporation	754.6	1.0	33.0	33.0
Canadian Film Development Corporation	35.7	nil	6.3	6.3
Canadian Institute for International Peace and Security	1.6	nil	nil	nil
Canadian Wheat Board, The[1]	4,583.3	4,555.5	nil	nil
International Development Research Centre	14.3	nil	nil	nil
National Arts Centre Corporation	6.4	nil	nil	nil
Total, exempt corporations	5,553.5	4,556.5	39.3	39.3
Grand Total, parent Crown corporations except Bank of Canada	58,558.7	19,744.6	15,932.2	25,406.4
Aggregate reserve in Canada's accounts pursuant to s. 54(2)(b) of the FAA				3,800.0
Net recorded asset total.				21,606.4

Notes to Table 3

1. Obligations to the private sector:

   —of the Canadian Wheat Board include financing provided by agents

   —of Petro-Canada include redeemable preferred shares of a subsidiary which could be a charge on the parent.

2. Canadian Arsenals Limited was sold six weeks after the date for which data are presented in this table; therefore, no values have been provided for this corporation.

4. SUMMARY PAGES AND THE AUDITED FINANCIAL STATEMENTS FOR EACH PARENT CROWN CORPORATION

A Summary Page precedes the audited financial statements of each of the Crown corporations (57 parents and 4 subsidiaries).

Each Summary Page presents basic information about a corporation's mandate, origins and present status and names the senior officers as of September 18, 1987. As well, a financial summary includes information such as obligations (which comprise long-term and short-term loan principal outstanding and other funding to be repaid, plus capital leases) and details of the cash provided to the corporation and its subsidiaries by Canada. The non-budgetary amounts displayed in the financial summary include equity infusions as well as loan funding.

Bracketed values () denote: for assets or equity, a deficit;
for "cash from Canada, net", a net payment to the Consolidated Revenue Fund.

When the word *restated* is shown for a year's financial data, this indicates that changes made by the corporation in its audited financial data subsequent to the publication of its Annual Report for that year are reflected in the summary.

SUMMARY PAGE

AIR CANADA

MANDATE

To provide a publicly-owned air transportation service, with powers to carry out other businesses incidental to the airline operation, having due regard to sound business principles and, in particular, the contemplation of profit.

BACKGROUND

The corporation's operation began in 1937. Until 1978, it was a subsidiary of CNR. Today it operates 114 jet aircraft, has 22,570 employees and its operations comprise about 60 per cent of Canadian revenue-passenger miles flown. No federal funds have been invested in Air Canada since the conversion to equity in 1978 of $324 million of its debt obligations to Canada.

CORPORATION DATA

HEAD OFFICE	500 Dorchester Boulevard West Montreal, Quebec H2Z 1X5
STATUS	—Schedule C, Part II —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1937; by the *Trans Canada Airlines Act*, repealed and replaced by *Air Canada Act*, 1977 (S.C. 1977-78, C. 5).
CHIEF EXECUTIVE OFFICER	Pierre J. Jeanniot
CHAIRMAN	Claude I. Taylor
AUDITOR	Thorne, Ernst & Whinney

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985 (restated)	1984 (restated)	1983
At the end of the year				
Total Assets	2,923	2,555	2,508	2,187
Obligations to the private sector	1,510	1,230	1,087	848
Obligations to Canada	176	196	228	246
Equity of Canada	553	513	528	486
Cash from Canada in the year				
—budgetary	nil	nil	nil	nil
—non-budgetary	nil	nil	nil	nil

AIR CANADA

MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the external auditors at least four times each year.

The external auditors, Thorne Ernst & Whinney, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

Pierre J. Jeanniot
President & Chief
Executive Officer

L.S. Desrochers
Senior Vice President
Finance & Planning

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF TRANSPORT

We have examined the consolidated balance sheet of Air Canada as at December 31, 1986 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting for pension costs and obligations as explained in Note 1(i) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, we have examined the transactions of the Corporation and its subsidiaries that came to our notice in the course of the abovementioned examination of the consolidated financial statements of Air Canada for the year ended December 31, 1986 to determine whether they were in accordance with Part XII of the Financial Administration Act, its regulations, the Air Canada Act and the By-laws of the Corporation. Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Thorne Ernst & Whinney
Chartered Accountants

Montreal, Canada
February 17, 1987

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and short-term investments	382,422	62,293
Accounts receivable	326,012	301,457
Spare parts, materials and supplies	99,078	89,622
Prepaid expenses	13,545	12,144
Deferred income taxes	39,126	38,489
	860,183	504,005
Property and equipment (Note 2)	1,669,675	1,807,189
Flight equipment under capital leases (Note 3)	74,097	91,715
Investment in other companies (Note 4)	59,310	31,604
Deferred charges (Note 5)	259,681	120,028
	2,922,946	2,554,541

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities	384,965	348,537
Advance ticket sales	187,201	171,127
Current portion of long-term debt and capital lease obligations	74,302	108,399
	646,468	628,063
Long-term debt (Note 6)	1,049,679	1,228,795
Long-term obligations under capital leases (Note 7)	13,897	88,938
Other long-term liabilities	22,119	19,836
Deferred credits (Note 8)	301,309	75,833
	2,033,472	2,041,465
Subordinated perpetual bonds (Note 9)	336,000	
SHAREHOLDER'S EQUITY		
Share capital		
Authorized: $750 million divided into shares of one thousand dollars each		
Issued and fully paid: 329,009 shares	329,009	329,009
Retained earnings	224,465	184,067
	553,474	513,076
	2,922,946	2,554,541

See accompanying notes.

On behalf of the Board:

CLAUDE I. TAYLOR
Chairman of the Board

PIERRE J. JEANNIOT
President & Chief Executive Officer

AIR CANADA—*Continued*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31 (in thousands of dollars)

	1986	1985
Operating revenues		
Passenger	2,218,437	2,109,845
Cargo	354,059	319,330
Contract services and other	312,765	293,402
	2,885,261	2,722,577
Operating expenses		
Salaries, wages and benefits	873,204	910,223
Aircraft fuel	480,800	565,153
Sales commissions	201,755	188,591
Maintenance materials, supplies and services	156,937	142,347
Passenger meals and services	150,415	135,613
Depreciation, amortization and obsolescence	189,012	192,561
Airport and airway user charges	105,808	84,950
Contracted ground handling and other services	105,193	88,198
Other	495,803	413,400
	2,758,927	2,721,036
Operating income	126,334	1,541
Non-operating income (expense)		
Interest on long-term debt and capital lease obligations	(125,393)	(114,110)
Gain on disposal of property, equipment and investments	23,602	13,859
Other	30,539	42,950
	(71,252)	(57,301)
Income (loss) before income taxes and extraordinary items	55,082	(55,760)
Provision for (recovery of) deferred income taxes (Note 10)	19,141	(33,865)
Net income (loss) before extraordinary items	35,941	(21,895)
Extraordinary items (Note 11)	4,457	7,074
Net income (loss)	40,398	(14,821)
Retained earnings at beginning of year	184,067	198,888
Retained earnings at end of year	224,465	184,067

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31 (in thousands of dollars)

	1986	1985
Cash provided by (used for)		
Operations		
Net income (loss) before extraordinary items	35,941	(21,895)
Extraordinary items	6,456	(5,062)
Non-cash items included in net income (loss)	148,340	129,122
Income results	190,737	102,165
Change in net trade balances	11,873	(33,464)
Increase in advance ticket sales	16,074	18,075
Increase in spare parts, materials and supplies	(12,685)	(18,925)
Other	(15,977)	(3,231)
	190,022	64,620
Financing		
Subordinated perpetual bonds	336,000	
Debt defeasance	(268,671)	
Long-term borrowings	9,129	136,545
Repayment of long-term debt	(111,129)	(113,503)
Repayment of capital lease obligations	(18,183)	(22,814)
Other	(9,150)	15,933
	(62,004)	16,161
Investments		
Additions to fixed assets	(87,127)	(104,169)
Proceeds from disposal of fixed assets	294,244	36,491
Investment in affiliated companies	(18,554)	(3,884)
Dividends received from affiliated companies	3,548	2,390
	192,111	(69,172)
Increase in cash position	320,129	11,609
Cash position at beginning of year	62,293	50,684
Cash position at end of year	382,422	62,293

Cash position consists of cash and short-term investments.
See accompanying notes.

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of Air Canada and its wholly-owned subsidiaries, Touram Inc., enRoute Card Inc. and enRoute Card International Inc. All inter-company transactions have been eliminated.

(b) Depreciation and amortization

Operating property and equipment, including assets under capital lease, are depreciated or amortized to estimated residual values based on the straight-line method over their estimated service lives. Estimated service lives for flight equipment range from 14 to 18 years, except when extended by significant modifications. Estimated service lives for other property and equipment range from 5 to 30 years.

(c) Maintenance

Maintenance and repairs are charged to operating expenses except for significant modification costs which are capitalized.

(d) Spare parts, materials and supplies

Spare parts, materials and supplies are valued at average cost. A provision for the obsolescence of flight equipment spare parts is accumulated over the estimated service lives of the related flight equipment.

(e) Airline revenue

Airline passenger and cargo sales are recognized as operating revenues when the transportation is used. The value of unused transportation is included in current liabilities.

(f) Interest capitalized

Interest on funds used to finance the acquisition of new flight equipment and other property and equipment is capitalized for periods preceding the dates the assets are put into service.

(g) Translation of foreign currencies

Monetary assets and liabilities in foreign currencies, with the exception of subordinated perpetual bonds, are translated at month-end exchange rates. Gains or losses are included in income of the year, except gains or losses relating to long-term debt and capital lease obligations which are deferred and amortized over the remaining life of the debt and obligations. Other assets and liabilities, subordinated perpetual bonds and items affecting income are converted at rates of exchange in effect at the date of the transaction.

(h) Investment tax credits

Investment tax credits related to assets acquired prior to 1985 are recognized in income net of applicable deferred income taxes, using the flow through method in the year in which the credits are claimed for tax purposes. Investment tax credits related to assets acquired after 1984 are recognized as a reduction of the cost of property and equipment in the year of acquisition.

(i) Pension costs and obligations

The Corporation has adopted the new recommendations of the Canadian Institute of Chartered Accountants on accounting for pension costs and obligations with prospective application from January 1, 1986. Pension expense consists of the actuarially computed costs using management's best estimate assumptions of pension benefits in respect of current year's service, imputed interest on plan assets and pension obligations, and straight-line amortization of experience gains or losses and assumption and plan changes, over the average remaining service life of the employee group. The difference between the actuarial present value of the accrued pension obligation and the market value of the pension fund assets at January 1, 1986, is also being amortized into income on a straight-line basis over the expected average remaining service life of the employee group. Corporation pension contributions during the year in excess of the amounts in the income statement are recorded as a deferred charge in the balance sheet. If this change had not been made, net income for the year would have been reduced by $23.0 million and the deferred charge in the balance sheet would have been reduced by $43.9 million.

(j) Sale and leaseback of assets

Gains on sale and leaseback of assets are deferred and amortized to income over the terms of the leases as a reduction in rental expense.

2. Property and equipment

	1986	1985
	$	$
Cost		
Flight equipment	2,097,044	2,270,031
Other property and equipment	720,597	694,285
	2,817,641	2,964,316
Accumulated depreciation and amortization		
Flight equipment	738,727	806,910
Other property and equipment	424,383	387,550
	1,163,110	1,194,460
	1,654,531	1,769,856
Progress payments	15,144	37,333
Net book value	1,669,675	1,807,189

Flight equipment includes one aircraft with a net book value of $2.6 million which was sold in January 1987 for $11.9 million.

During the year, the Corporation sold and leased back under operating leases, 24 DC-9 aircraft and an office and computer building.

3. Flight equipment under capital leases

	1986	1985
	$	$
Flight equipment under capital leases	292,266	295,985
Less: accumulated depreciation	218,169	204,270
Net book value	74,097	91,715

4. Investment in other companies

Investments in companies accounted for on the equity basis included GPA Group Limited (26.0% owned, 22.7% owned until March 31, 1986), Innotech Aviation Industries (1986) Limited (30.0% owned), Aerospace Realties (1986) Limited (30.0% owned), MATAC Cargo Ltd. (50.0% owned), Global Travel Computer Holdings Ltd. (33.3% owned), Air Ontario Limited (24.5% owned effective March 4, 1986) and Air Nova Inc. (49.0% owned effective July 1, 1986). The Corporation's share of the earnings of these companies has been included in other non-operating income and amounted to $12.7 million (1985—$9.1 million).

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

5. Deferred charges

	1986	1985
	$	$
Foreign currency exchange losses on long-term debt	158,800	79,795
Employer pension plan contributions in excess of charges to income	51,152	
Bond issue costs	22,808	11,615
Other	26,921	28,618
	259,681	120,028

Amortization of deferred charges for the year amounted to $33.3 million (1985—$9.6 million).

6. Long-term debt

	1986	1985
	$	$
Government of Canada		
7.2% note, payable semi-annually maturing in 1993	175,589	196,098
Other		
8.7% notes due 1995/96	477,266	504,211
7.3% bonds due 1991 to 1995	130,875	104,760
6.25% bonds due 1992	85,590	67,860
5.5% bonds due 1995	85,590	67,860
9.0% bonds due 1992	71,740	57,190
7.375% bonds due 1993	71,740	57,190
11.25% bonds due 1994	70,000	70,000
8.0% notes due 1990/91	41,161	50,733
8.5% note due 1991/92	38,356	46,699
9.25% note due 1991 to 1993	31,574	32,128
8.375% note due 1990	26,896	35,007
Various notes due 1987 to 1992	2,370	53,530
	1,133,158	1,147,168
	1,308,747	1,343,266
In-substance defeasance (Note 12)	(180,067)	
	1,128,680	1,343,266
Current portion	(60,118)	(84,142)
	1,068,562	1,259,124
Net value of related long-term forward exchange contracts	(18,883)	(30,329)
	1,049,679	1,228,795

None of the long-term debt is secured.

Repayment requirements over the next five years amount to $347.3 million net of defeasance: $60.1 million in 1987, $67.6 million in 1988, $70.9 million in 1989, $70.7 million in 1990 and $78.0 million in 1991. Long-term debt includes $581.5 million payable in U.S. funds, $171.2 million in Swiss francs, $143.5 million in German marks, $130.9 million in Japanese yen, $70.0 million in U.K. Sterling, and $31.6 million in French francs. Essentially all the U.S. debt is covered by long-term U.S. currency forward exchange contracts. The Corporation has a currency swap agreement with a Canadian bank which has the effect of extinguishing future exchange fluctuations of the Sterling debt and interest.

In 1985 the Corporation entered into interest rate swap agreements expiring in 1988 and 1990 aggregating U.S. $150 million in notional principal. The Corporation has assumed the variable interest rate position adjusted quarterly to the prevailing LIBOR rate against an average 10.15% fixed interest rate position assumed by third parties.

The Corporation has revolving and term credit agreements totalling $200 million with two Canadian chartered banks. The revolving and term periods are three and five years respectively. As at December 31, 1986 there were no outstanding drawings against these agreements.

7. Lease obligations

The future minimum lease payments under capital and operating leases are as follows:

	Capital leases—Aircraft	Operating leases—Aircraft & property
	$	$
1987	16,786	66,034
1988	13,935	61,940
1989	7,685	54,983
1990	3,651	53,974
1991		51,165
Remaining years		413,085
Total future minimum lease payments	42,057	701,181
Less: amount representing interest and holdbacks	10,933	
Present value of capital lease obligations net of amounts defeased of $62.1 million (Note 12)	31,124	
Less: current portion of net obligations	14,184	
Present value of net long-term obligations under capital leases	16,940	
Less: net value of related long-term forward exchange contracts	3,043	
Present value of long-term obligations under capital leases	13,897	

Capital leases are recorded at the present value of the lease payments using the interest rate implicit in the lease. The average implicit interest rate of these obligations is 7.6% and their expiry dates are from 1989 to 1991.

8. Deferred credits

	1986	1985
	$	$
Gains on sale and leaseback of assets	211,931	
Income taxes	87,172	67,738
Other	2,206	8,095
	301,309	75,833

9. Subordinated perpetual bonds

	1986	1985
	$	$
300 million Swiss francs at 6¼% Callable in year 2001 and every fifth year thereafter at 102% of par	201,600	
200 million Swiss francs at 5¾% Callable at 101½% of par in year 1999 and every fifth year thereafter at 102% of par	134,400	
	336,000	

The maturity of these bonds is only upon the liquidation, if ever, of the Corporation. Principal and interest payments on these bonds are subordinated to the prior payment in full of all indebtedness for borrowed money. Since it is not probable that circumstances will arise requiring redemption of the bonds, they are valued at the historical exchange rate and no provision is made for foreign exchange fluctuations.

AIR CANADA—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Concluded*

10. Income taxes

The Corporation's provision for (recovery of) deferred income taxes is comprised as follows:

	1986	1985
	$	$
Provision for (recovery of) income taxes based on the combined basic Canadian federal and provincial income tax rate	24,787	(24,535)
Lower effective income tax rate on capital (gains) losses	1,258	(5,125)
Tax exempt earnings of related companies	(5,450)	(4,024)
Investment tax credits, net of deferred income tax of $1,054	(1,288)	
Miscellaneous	(166)	(181)
Provision for (recovery of) deferred income taxes	19,141	(33,865)

As at December 31, 1986 the Corporation has available $21.9 million of investment tax credits that can be applied in 1987 or 1988 as a reduction to future federal income taxes payable. The benefit of these credits has not been recognized in the accounts.

11. Extraordinary items

During the year the Corporation defeased $268.7 million of long-term debt and capital lease obligations resulting in a gain of $9.9 million after deducting deferred income taxes of $6.4 million.

Provision for the cost of staff reduction programs amounted to $5.4 million (1985—$2.8 million) after deducting deferred income taxes of $4.4 million (1985—$2.2 million).

12. In-substance defeasance

In 1986 the Corporation deposited $251.8 million of government securities in irrevocable trusts, solely to satisfy the scheduled interest and principal repayment requirements of $200.6 million in long-term debt and $68.1 million in long-term capital lease obligations. As at December 31, 1986, these obligations, which amounted to $180.1 million in long-term debt and $62.1 million in capital lease obligations, are considered extinguished for financial reporting purposes and, together with the related securities, have been removed from the Corporation's balance sheet.

13. Changes in accounting estimates

Estimated residual values of aircraft spare parts were adjusted in the determination of the provision for obsolescence in 1986. This resulted in a decrease in amortization and an increase in net income of $5.0 million after deducting deferred income taxes of $4.1 million.

14. Commitments

As at December 31, 1986, the Corporation had undertakings to increase its participation in Air Ontario Limited from 24.5% to 75%, to acquire 75% of Austin Airways Ltd. and 100% of AirBC. These undertakings involved an estimated expenditure of $68.8 million. The Air Ontario and AirBC commitments were concluded subsequent to year-end.

Contracts for aircraft modifications amounted to approximately U.S. $6.3 million. Other commitments for property, ground equipment and spare parts, amounted to approximately $37.6 million Canadian.

At December 31, 1986, the Corporation had contracted for sale in mid 1987, 2 L-1011 aircraft presently under capital lease. Proceeds of sale will exceed the carrying value of these aircraft.

15. Pension Plans

Air Canada maintains several defined benefit pension plans covering substantially all of its employees. Based on the latest actuarial reports prepared as of December 31, 1985 using management's best estimate assumptions, the present value of the accrued pension benefits as at December 31, 1986 amounted to $1,746.2 million, and the market value of the net assets available to provide these benefits was $2,260.4 million.

In accordance with generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants, the amount by which the Corporation's 1986 funding contributions exceeded the amounts recorded in the determination of its net income, has been reflected in the balance sheet as a deferred charge.

16. Contingencies

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management supported by counsel that final determination of these claims will not materially affect the financial position or the results of the Corporation.

Under aircraft sale and leaseback agreements, the Corporation may be required to provide residual value support not exceeding $39.5 million. Independent appraisals presently indicate that the Corporation will not be required to provide this support.

17. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations. The Corporation derives revenues from related parties for passenger, cargo and contract services. Expenses with related parties include landing fees, terminal assessments, taxes and interest on long-term debt. Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

18. Comparative figures

Certain of the 1985 comparative figures have been reclassified to conform to the presentation adopted in 1986.

19. Act of incorporation

The Corporation operates under the Air Canada Act, 1977, as amended.

20. Subsequent events

In February 1987, the Corporation entered into an agreement with CSFB-Effectenbank in Germany pursuant to which it will issue to the bank Deutsche Mark 200 million of 6⅜% interest adjustable subordinated perpetual bonds in consideration for which the bank will convert Deutsche Mark 200 million of existing long-term public bond debt into these subordinated perpetual bonds and to fund the interest payment requirements on the new perpetual bonds until conversion in 1992 and 1993. The principal component of the subordinated perpetual debt will be recorded in the accounts upon actual conversion and until such time the Corporation will be contingently liable for such obligations. The bonds are unsecured. The interest rate will be 6⅜% until 1994 and re-set for each subsequent 3 year period based on an interest rate index. The bonds may be called by the Corporation on each interest rate re-set date at 100% of par. As a result of this transaction, the deferred foreign exchange position in respect of the Deutsche Mark 200 million of existing long-term public bond debt ($52.1 million deferred loss as at December 31, 1986) will no longer be amortized to income.

SUMMARY PAGE

ATLANTIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service within designated waters in and around the Atlantic provinces.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Suite 1203 Bank of Montreal Tower 5151 George Street Halifax, Nova Scotia B3J 1M5
STATUS	—Schedule C, Part I —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52) proclaimed on February 1, 1972.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	A. Douglas Latter
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984**	**1983**
At the end of the year				
Total Assets	1.4	1.2	1.7	1.9
Obligations to the private sector	0.1	0.3	nil	nil
Obligations to Canada	0.4	0.4	0.5	0.6
Equity of Canada	(0.3)	(0.6)	(0.1)	negl.
Cash from Canada for the year				
—budgetary	0.7	0.6	0.1	nil
—non-budgetary	nil	nil	nil	nil

ATLANTIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Atlantic Pilotage Authority as at December 31, 1986 and the statements of operations, deficit, contributed capital and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations, and the by-laws of the Authority.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 20, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	303	16,801
Accounts receivable	667,793	526,967
Prepaid expenses	14,507	14,869
	682,603	558,637
Fixed, at cost (Note 4)	1,471,929	1,476,593
Less: accumulated depreciation	767,177	807,182
	704,752	669,411
	1,387,355	1,228,048

LIABILITIES	1986	1985
	$	$
Current		
Bank indebtedness	111,455	300,000
Accounts payable and accrued liabilities	401,281	400,646
Obligation under capital lease agreements (Note 5)	84,340	77,685
Current portion of accrued employee termination benefits	52,969	24,538
	650,045	802,869
Long-term		
Accrued employee termination benefits	719,810	694,950
Obligation under capital lease agreements (Note 5)	286,874	371,214
	1,006,684	1,066,164
	1,656,729	1,869,033
CONTRIBUTED CAPITAL AND DEFICIT		
Contributed capital	933,988	845,503
Deficit	(1,203,362)	(1,486,488)
	(269,374)	(640,985)
	1,387,355	1,228,048

Approved by the Authority:

A. D. LATTER
Chairman

C. R. WORTHINGTON
Member

M. R. McGRATH
Treasurer

ATLANTIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Income		
Pilotage charges	5,804,151	5,484,593
Interest and other income	30,267	64,860
	5,834,418	5,549,453
Expenses		
Pilots' fees, salaries and benefits	2,976,931	3,019,500
Pilot boats, operating costs	1,889,727	1,897,577
Staff salaries and benefits	367,469	366,023
Transportation and travel	247,261	242,789
Professional and special services	215,275	199,821
Rentals	123,700	127,612
Depreciation	63,191	73,676
Communications	59,582	58,061
Utilities, materials and supplies	51,080	42,703
Sundry	43,194	43,792
Interest on capital leases	36,508	42,795
	6,073,918	6,114,349
Net loss for the year (Note 3(c))	239,500	564,896

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Balance, beginning of year	1,486,488	921,592
Net loss for the year	239,500	564,896
	1,725,988	1,486,488
Parliamentary appropriation to finance (Note 3(a))		
Cash operating loss	522,626	
Balance, end of the year	1,203,362	1,486,488

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Balance, beginning of year	845,503	845,503
Parliamentary appropriation to finance (Note 3(a))		
Additions to fixed assets	10,800	
Principal payments on capital leases	77,685	
	88,485	
Balance, end of year	933,988	845,503

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Financing activities		
Parliamentary appropriation to finance (Note 3(a))		
Cash operating loss	522,626	
Fixed asset additions	10,800	
Principal payments for capital leases	77,685	
	611,111	
Reimbursement of parliamentary appropriation		(186,468)
Principal portion of capital lease payments	(77,685)	(71,558)
Increase (decrease) in bank indebtedness	(188,545)	300,000
Cash provided by financing activities	344,881	41,974
Operating activities		
Cash (used for) provided from operations		
Net loss for the year	(239,500)	(564,896)
Items not requiring cash		
Depreciation	63,191	73,676
Increase in accrued employee termination benefits	82,186	70,713
Loss on disposal of fixed assets	1,105	2,220
Cash (used for) operations	(93,018)	(418,287)
Cash provided by (invested in) non cash working capital	(139,829)	279,738
Employee termination benefits payments	(28,895)	(93,989)
Cash (used for) operating activities	(261,742)	(232,538)
Investing activities		
Additions to fixed assets	(99,637)	(10,800)
Cash (used for) investing activities	(99,637)	(10,800)
(Decrease) in cash during the year	(16,498)	(201,364)
Cash, beginning of year	16,801	218,165
Cash, end of year	303	16,801

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Nature of activities

The Atlantic Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act. The objects of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis.

2. Significant accounting policies

(a) Parliamentary appropriations

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, cash operating losses are recovered from parliamentary appropriations. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

(b) Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Buildings	20 years
Pilot boats	20 years
Pilot boats under capital lease	25 years
Furniture and equipment	10 years

ATLANTIC PILOTAGE AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

(c) Contributed capital

Capital assets and the principal portion of payments under capital lease agreements financed from parliamentary appropriations are shown as contributed capital when approved by Parliament.

(d) Capital leases

The Authority leases three pilot boats from Canada under long-term financing leases. Under the terms of the lease agreements, the Authority assumes the rights and obligations of ownership. As a result, the leases are treated as purchases and the principal portion of lease payments is capitalized and depreciated over the estimated useful lives of the boats. The corresponding liability is reduced by the principal portion of lease payments and the interest portion is expensed in the year to which it relates.

(e) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the pilots.

(f) Employee termination benefits

Employees of the Authority are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

3. Parliamentary appropriation

(a) On March 26, 1986, the Government of Canada provided, through Appropriation Act No. 4, 1985-86, for the 1985 cash operating loss and capital expenditures of the Atlantic Pilotage Authority. An amount of $611,111 was received in 1986 by the Authority in respect of this appropriation.

(b) On December 4, 1986, the Treasury Board of Canada approved, under T.B. 803674, the amended 1986 Capital Budget of the Atlantic Pilotage Authority for the construction of a new pilot boat (Note 4). Approval has been granted for a 1986-87 final Supplementary Estimate to transfer $450,000 from Transport Canada Vote 5 to the Authority. A contract to construct the pilot boat, for a total cost of approximately $395,000, was signed on December 19, 1986. Delivery is expected in June, 1987.

(c) On February 12, 1987, Treasury Board approved the Authority's application, in the amount of $275,000, to include an item in Supplementary Estimates for 1986-87 for the 1986 cash operating loss and capital expenditures. The actual amounts are as follows:

	$
Cash operating loss	121,913
Fixed asset additions	21,143
Principal payments for capital leases	84,340
	227,396

4. Fixed assets

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land and buildings	450		450	450
Pilot boats	299,909	224,452	75,457	85,918
Pilot boats under capital lease	964,000	466,720	497,280	535,840
Furniture and equipment	129,076	76,005	53,071	47,203
Pilot boat under construction (Note 3(b))	78,494		78,494	
	1,471,929	767,177	704,752	669,411

5. Capital lease agreements

The Authority leases three pilot boats under long-term financing leases. The payments required under the leases are as follows:

	1986	1985
	$	$
9⅜% lease agreement, due April 1991, payable in blended annual payments of $54,785	273,930	328,715
8% lease agreement, due October 1989, payable in blended annual payments of $31,077	93,228	124,305
8% lease agreement, due November 1989, payable in blended annual payments of $31,077	93,228	124,305
Total lease payments	460,386	577,325
Less: amount representing interest	89,172	128,426
Principal amount of capital lease	371,214	448,899
Less: current portion	84,340	77,685
Principal amount of capital lease agreements net of current portion	286,874	371,214

The following is a schedule of lease payments under the capital leases expiring in 1989 and 1991.

	1986	1985
	$	$
Year ending December 31		
1986		116,939
1987	116,939	116,939
1988	116,939	116,939
1989	116,939	116,939
1990	54,784	54,784
1991	54,785	54,785
Total lease payments	460,386	577,325

Upon maturity of the leases, the Authority has the option to purchase each of the boats for $1.

ATLANTIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

6. Pension plan

Under provisions of the Pilotage Act, pilots may choose to become employees of the Authority and become entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who have elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. Total past service pension expense was $19,464 in 1986 ($20,985—1985). The estimated unfunded past service pension contribution with respect to these employees was approximately $128,000 at December 31, 1986 ($127,000 at December 31, 1985) and will be funded over the remaining years of service of the pilots, or the terms of purchase, whichever is the lesser.

7. Related party transactions

The Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick and Newfoundland, provides a pilot dispatching service to the Authority without charge.

8. Cost reduction

The Authority continually monitors its operating expenditures in striving to operate on a self-sustaining financial basis. During 1986, steps were taken to reduce costs of pilots, pilot boats, and administrative overheads.

9. Income tax

Under the provisions of the Income Tax Act, the Authority is not subject to income tax.

SUMMARY PAGE

ATOMIC ENERGY OF CANADA LIMITED

MANDATE

To develop the utilization of atomic energy for peaceful purposes. The mandate of the corporation is prescribed by s. 10(1) of the *Atomic Energy Control Act* and by its charter and articles of incorporation.

BACKGROUND

Founded in 1952, AECL developed Candu power generating technology. It operates Canada's major research and development laboratories at Chalk River, Ontario and at Pinawa, Manitoba. Three provincial utilities received federal financing for nuclear facilities through AECL and now make repayments to it which are passed on to Canada. The corporation was responsible for Candu reactors built recently in Argentina and in Korea and is providing services related to two Candu reactors under construction in Romania. Its design and engineering teams are important to the continued improvement and development of nuclear power stations and nuclear technology in general. Consideration is now being given to the privatization of the Radiochemical division of the company which produces and markets radiating isotopes and medical equipment.

CORPORATION DATA

HEAD OFFICE	275 Slater Street Ottawa, Ontario K1A 0S4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	February 14, 1952 under Part I of *Canada Corporations Act*; continued July 8, 1977 under the *Canada Business Corporations Act*; certificate amended July 15, 1982.
CHIEF EXECUTIVE OFFICER	James Donnelly
CHAIRMAN	Basil A. Bénéteau
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	1,018	1,107	1,226	1,285
Obligations to the private sector	23	24	36	44
Obligations to Canada	626	649	720	767
Equity of Canada	196	177	148	143
Cash from Canada in the period				
— budgetary	218	275	326	336
— non-budgetary	nil	nil	nil	5

ATOMIC ENERGY OF CANADA LIMITED

MANAGEMENT RESPONSIBILITY

The financial statements and all other information presented in this annual report are the responsibility of the management and the Board of Directors of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the experience and judgement of management.

The corporation maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part XII of the Financial Administration Act and its regulations, as well as the charter, the by-laws and policies of the corporation. The corporation has met all reporting requirements established by the Financial Administration Act, including submission of a corporate plan, an operating budget, a capital budget, and this annual report.

The corporation's internal auditor has the responsibility for assessing the management systems and practices of the Corporation. The Auditor General of Canada conducts an independent examination of the financial statements of the Corporation and reports on his examination to the Minister of Energy, Mines and Resources.

The Board of Directors' Audit Committee, composed of directors who are not employees of the Corporation, reviews and advises the Board on the financial statements, the Auditor General's reports thereto and the plans and reports related to special examinations, and oversees the activities of internal audit. The Audit Committee meets with management, the internal auditor and the Auditor General on a regular basis.

AUDITOR'S REPORT

TO THE MINISTER OF ENERGY, MINES AND RESOURCES

I have examined the balance sheet of Atomic Energy of Canada Limited as at March 31, 1987 and the statements of income, contributed capital, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 8, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Current		
Cash and short-term deposits	57,701	55,495
Accounts receivable	142,182	126,858
Inventories (Note 3)	59,595	61,667
	259,478	244,020
Non-current inventory (Note 3)		1,579
Long-term receivables (Note 4)	597,378	699,163
Investment and deferred costs (Note 5)	107,652	110,280
Property, plant and equipment (Note 6)	53,607	51,955
	1,018,115	1,106,997

LIABILITIES	1987	1986
Current		
Accounts payable and accrued liabilities	124,594	133,759
Current portion of long-term debt	26,353	24,171
	150,947	157,930
Deferred revenue	14,592	64,255
Provision for contracts in progress		25,024
Accrued employee termination benefits	34,370	34,084
Long-term debt (Note 7)	622,545	648,898
	822,454	930,191
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—75,000 common shares		
Issued—54,000 common shares	15,000	15,000
Contributed capital	71,051	69,795
Retained earnings	109,610	92,011
	195,661	176,806
	1,018,115	1,106,997

Approved by the Board:

B. A. BÉNÉTEAU
Director

JAMES DONNELLY
Director

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Commercial operations		
Revenue		
Nuclear supply and services	87,603	93,269
Radiation equipment and isotopes	111,209	92,617
Interest on long-term receivables	63,355	64,197
Interest on short-term deposits	5,965	10,238
	268,132	260,321
Costs and expenses		
Cost of sales and services	114,094	119,467
Product development	17,820	10,332
Marketing and administration	57,222	40,593
Interest on long-term debt	58,303	62,231
	247,439	232,623
Operating profit	20,693	27,698
Research and development operations		
Expenses	222,870	211,683
Less: revenue	38,039	24,867
parliamentary appropriations	181,737	176,612
Net expenses	3,094	10,204
Discontinued operations		
Expenses	36,397	58,161
Less: parliamentary appropriations	34,588	58,161
recovery from asset sales	1,809	
Net income	17,599	17,494

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operating activities		
Net income	17,599	17,494
Depreciation and amortization	6,822	6,175
	24,421	23,669
Increase in operating working capital	(13,444)	(26,173)
Cash from (used in) operations	10,977	(2,504)
Investing activities		
Heavy water production		(29,193)
Parliamentary appropriations for heavy water production		29,193
Acquisition of commercial property, plant and equipment net of disposal	(7,438)	(4,947)
Increase in deferred costs	(1,758)	(6,985)
Cash invested	(9,196)	(11,932)
Financing activities		
Repayment of long-term debt	(24,171)	(83,013)
Proceeds from long-term notes receivable	23,340	19,126
Parliamentary appropriations for loan principal repayment	1,256	11,154
Cash from (used in) financing	425	(52,733)
Increase (decrease) in cash and short-term deposits	2,206	(67,169)
Cash and short-term deposits at beginning of the year	55,495	122,664
Cash and short-term deposits at end of the year	57,701	55,495

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Balance at beginning of the year	69,795	58,641
Parliamentary appropriations for loan principal repayment	1,256	11,154
Balance at end of the year	71.051	69,795

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Balance at beginning of the year	92,011	74,517
Net income	17,599	17,494
Balance at end of the year	109,610	92,011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The most significant accounting policies are summarized below:

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction, except those covered by forward exchange contracts, where the rate established by the terms of the contract is used. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

Inventories

Radiation equipment and materials are valued at the lower of average cost and net realizable value. Maintenance and general supplies are valued at cost. Heavy water is valued at the lower of average cost, less related parliamentary appropriations, and net realizable value. Heavy water inventory not expected to be sold within the next year or used in operations is classified as non-current.

Investment and deferred costs

Investment and deferred costs are recorded at cost and charged to the revenue derived therefrom over the expected period of revenue generation.

Property, plant and equipment

Property, plant and equipment of a research and development nature are recorded at cost and expensed in the year of acquisition.

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*Concluded*

Other property, plant and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Machinery and equipment	— 3 to 20 years
Buildings	— 20 to 50 years

Costs of decommissioning nuclear facilities are expensed when incurred.

Long-term contracts

Revenue and costs on long-term contracts are accounted for by the percentage-of-completion method, applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for all estimated losses to completion of contracts in progress.

Parliamentary appropriations

The Government of Canada, through parliamentary appropriations, funds certain operations of the Corporation as outlined in Note 2. The parliamentary appropriations are offset against the applicable expenditures except for the portion used to discharge certain loan principal which is recognized as an increase in contributed capital.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis.

Employee termination benefits

Employees are entitled to specific termination benefits as provided for under collective agreements and conditions of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1987

1. Accounting policies

The summary of significant accounting policies is an integral part of these financial statements.

2. Parliamentary appropriations

Parliamentary appropriations were used during the year for the following purposes:

	1987	1986
	(in thousands of dollars)	
Research and development operations	181,737	176,612
Discontinued operations		
Prototype reactors	11,855	18,331
Heavy water plant closures	18,839	35,382
LaPrade plant protection	1,850	2,302
Heavy water plant loan interest	2,044	2,146
	34,588	58,161
Heavy water production		29,193
Heavy water plant loan principal	1,256	11,154
	217,581	275,120

3. Inventories

	1987	1986
	(in thousands of dollars)	
Current		
Radiation equipment and materials	44,916	37,763
Heavy water	9,653	20,904
Maintenance and general supplies	5,026	3,000
	59,595	61,667
Non-current		
Heavy water	554,787	556,366
Less: accumulated parliamentary appropriations	554,787	554,787
		1,579

Accumulated parliamentary appropriations are repayable, together with interest thereon, to the extent of future revenue from sales of related heavy water. At March 31, 1987 no significant contracts had been finalized for the sale of heavy water funded by parliamentary appropriations.

4. Long-term receivables

	1987	1986
	(in thousands of dollars)	
Notes receivable from provincial utilities in respect of the financing of nuclear facilities (refer to Note 7 for related debt)	600,219	623,559
Contract receivables maturing through 1995	34,069	96,064
Mortgages receivable and other	5,523	5,132
	639,811	724,755
Current portion	42,433	25,592
	597,378	699,163

During the year, a major project was completed and the terms of payment of amounts still outstanding under the contract were re-negotiated. As a result, the related provision for contracts in progress and deferred revenue balances as at March 31, 1987 are reflected as an allowance against contract receivables.

5. Investment and deferred costs

	1987	1986
	(in thousands of dollars)	
Investment in Pickering 1 and 2		
The Corporation, Ontario Hydro, and the Province of Ontario are parties to an agreement for the construction and operation of Units 1 and 2 of the Pickering «A» nuclear generating station, with ownership of these units being vested in Ontario Hydro. Under the agreement, the Corporation is entitled to receive payments until the year 2001 based on the net operational advantage of the power generated by Pickering Units 1 and 2 as compared with the coal-fired Lambton Units 1 and 2	84,012	84,012
Deferred costs		
Costs incurred in modifying non-corporation owned facilities for revenue-producing purposes and other deferred costs	23,640	26,268
	107,652	110,280

Pickering Units 1 and 2 remain shut down for replacement of the pressure tubes and therefore the Corporation did not earn any revenue during the 1986 and 1987 years. As a result, no amortization of the investment was charged in either year. The reactors are currently scheduled to be back in operation in calendar 1987. Extension of the agreement beyond 2001 is currently being finalized with Ontario Hydro due to the shutdown.

Amortization of deferred costs for the year amounted to \$1.5 million (1986—\$.5 million).

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1987—*Continued*

6. Property, plant and equipment

	1987			1986
	Cost	Government funding and accumulated depreciation	Net	Net
	(in thousands of dollars)			
Commercial operations				
Land and improvements	2,419	1,067	1,352	1,587
Buildings	49,328	19,919	29,409	26,642
Machinery and equipment	39,787	19,673	20,114	20,866
	91,534	40,659	50,875	49,095
Research and development operations				
Land and improvements	9,689	9,689		
Buildings	67,690	64,958	2,732	2,860
Reactors and equipment	240,350	240,350		
Construction in progress	57,730	57,730		
	375,459	372,727	2,732	2,860
Discontinued operations				
Prototype reactors	170,557	170,557		
Heavy water plants	802,881	802,881		
	1,440,431	1,386,824	53,607	51,955

Depreciation of commercial property, plant and equipment for the year ended March 31, 1987 amounted to $5.3 million (1986—$5.7 million).

Research and development property, plant and equipment expensed during the year amounted to $20.1 million (1986—$17.9 million).

The decommissioning of nuclear research and prototype facilities is an integral part of the nuclear program. A program has been developed and implemented to bring the facilities to a safe-storage mode as the initial stage of decommissioning. Currently, the Gentilly 1 and Douglas Point prototype reactors are on a safe-keeping basis. The balance of the Douglas Point program is proceeding on target, with an estimated cost to complete of $3.2 million. The future net decommissioning costs of nuclear research and prototype facilities cannot be quantified at this time due to the uncertainty as to the exact nature, timing and ultimate disposal alternatives. In accordance with the Corporation's accounting policy, any such costs will be expensed when incurred.

The closure of the heavy water plants at Glace Bay and Port Hawkesbury commenced July 1985 and is close to completion, with an estimated cost of $2.0 million for remaining work.

7. Long-term debt

	1987	1986
	(in thousands of dollars)	
Loans from Government of Canada		
To finance provincial utility nuclear facilities maturing through 2008 at fixed interest rates varying from 6.687% to 9.706% (refer to Note 4 for related receivables)	599,582	621,643
To finance leased heavy water and other assets, maturing through 2003 at fixed interest rates varying from 4.125% to 10%	25,964	27,142
Loans from third parties		
To finance the purchase of the Glace Bay heavy water plant, maturing through 1998 at an imputed interest rate of 8.875%	23,352	24,284
	648,898	673,069
Current portion	26,353	24,171
	622,545	648,898

Loan repayments required over the succeeding years are as follows (millions of dollars): 1988—$26.4; 1989—$47.7; 1990—$30.3; 1991—$32.9; 1992—$35.9; and subsequent to 1992—$475.7.

8. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, the Corporation had the following transactions with the Government of Canada:

	1987	1986
	(in thousands of dollars)	
Repayment of loans and interest	81,358	134,757
Payments to the Public Service Superannuation Plan	12,748	14,526

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations.

9. Contingencies

Certain claims against the corporation have arisen in the course of its medical products business and were pending at March 31, 1987. While the amount of any ultimate liability cannot be determined at this time, the outcome of these matters in the opinion of management will have no material effect on the corporation's financial position or results of operations.

10. Supplementary information

Incorporation

Pursuant to the authority and powers of the Minister of Energy, Mines and Resources under the Atomic Energy Control Act, the corporation was incorporated in 1952 under the provisions of the Canada Corporations Act (and continued in 1977 under the provisions of the Canada Business Corporations Act) to develop the utilization of atomic energy for peaceful purposes.

The corporation is a Schedule C Part I Crown corporation under the Financial Administration Act. The corporation is exempt from income taxes.

Operations

The operations of the corporation are reported in the Statement of Income as commercial operations, research and development operations, and discontinued operations.

Commercial operations consist of nuclear power engineering and design, project management, operating plant support services, manufacturing and selling of medical and industrial radiation equipment and radioisotopes, and investments.

ATOMIC ENERGY OF CANADA LIMITED—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR END MARCH 31, 1987—*Concluded*

Research and development operations consist of basic and applied nuclear research and development, and contract research and development services.

Discontinued operations consist of placing and maintaining prototype reactors in a safe-storage mode as the initial stage of decommissioning, as well as the activities associated with closure and protection of the heavy water plants at Glace Bay, Port Hawkesbury and LaPrade.

Insurance

The corporation assumes substantially all risks pertaining to the assets and operations of research and development, and prototype reactors. Commercial assets and operations, as well as heavy water inventories, are insured to the extent considered appropriate.

Sales agents' remuneration

Guidelines concerning the commercial practices of Crown corporations require disclosure of sales agents and the total remuneration paid to them during the year.

Remuneration and expenses paid to the following sales agents and representatives in 1987, primarily with respect to commercial operations, aggregated $2.0 million (1986—$2.3 million):

Alnor Instruments AB, Sweden; Aristons Ltd., Sri Lanka; B.C. Simeon Park, U.S.A.; Bio Nuclear Diagnostica Industria E. Comercio Ltda., Brazil; Companhio Brazileira De Radiologia, Brazil; ETS F.A. Kettaneh S.A., Lebanon; Eastronics Limited, Israel; Gammaster, B.V., The Netherlands; Gemed Sistemas Medicos C.A., Venezuela; General Machinery Company Ltda., Chile; General Medica De Columbia Ltda., Columbia; Hamco Commercial S.C.R.L. Lima, Peru; International General Electric Co. (India) Ltd., India; Jardin Danby Ltd., Hong Kong; Korea General Trading Corporation, Republic of South Korea; Kostas Karayannis S.A., Greece; Marsman & Company Incorporated, Philippines; Marubeni Corporation, Japan; Medtel Pty Limited, N.S.W. Australia; Mundinter, Portugal; Novelait (Medical) Limited, Hong Kong; Nuclital, s.r.l., Italy; Pacific Economic Development Corporation, U.S.A.; P.I.I., U.S.A.; P.T. Sanga Kencana International, Indonesia; Radiotherapy & Medical Systems Pty Ltd., Australia; Societa Lombarda Di Televisione s.r.l., Italy; Tecnologia Em Radiacao Ltda., Brazil; Tamathe s.r.l., Argentina; Tareq Company, Kuwait; Zelin Limited, Pakistan.

SUMMARY PAGE

BANK OF CANADA

MANDATE

The Bank of Canada is responsible for the formulation and implementation of monetary policy in Canada and acts as the government's fiscal agent. The Bank has the sole right to issue currency intended for circulation in Canada and it fixes the percentage of the deposit liabilities of chartered banks which they must maintain as secondary reserves. It conducts open-market operations, buying or selling securities as, in its judgement, the progress of Canada's economy requires. As fiscal agent, it handles the issue of securities of Canada and payment of related interest and principal; it also cashes and negotiates cheques drawn on the Receiver General. It administers the Exchange Fund Account and acts as agent for the government's operations in the foreign exchange market.

BACKGROUND

The Bank was created by its Act in 1934 as Canada's central bank.

CORPORATION DATA

HEAD OFFICE	234 Wellington Street Ottawa, Ontario K1A 0G9
STATUS	Acts as the fiscal agent of the Government of Canada; is exempt from the provisions of Divisions I to IV of Part XII of the *Financial Administration Act.*
APPROPRIATE MINISTER	The Honourable Michael Wilson, P.C., M.P.
DEPARTMENT	Finance
YEAR AND MEANS OF INCORPORATION	1934, by *The Bank of Canada Act* (R.S.C. 1970, B-2).
CHIEF EXECUTIVE OFFICER	J. W. Crow
AUDITOR	Arthur Andersen & Co. and Ernst & Whinney.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983
Expenses, before depreciation	143	135	118	110

Note: This Financial Summary is cursory compared with that for any other corporation in this Report. This is appropriate because the nature of the operations of a central bank makes its financial statements unique in their import. For example: the Bank's assets are mostly securities of Canada and its revenues are mostly the interest paid to it by Canada on those securities. Therefore, the substantial net income (1985, $1,880 million; 1986, $1,936 million) which the Bank pays to Canada is simply completion of a circular flow of cash, diminished by the amount of the Bank's operating expenses.

BANK OF CANADA

AUDITORS' REPORT

We have examined the statement of assets and liabilities of the Bank of Canada as at December 31, 1986 and the statement of revenue and expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accompanying summary of significant accounting policies, applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.
Ernst & Whinney

Ottawa, Canada
January 15, 1987

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

ASSETS	1986	1985
Deposits payable in foreign currencies		
U.S.A. dollars	314,896	533,581
Other currencies	8,159	35,723
	323,055	569,304
Advances to members of the Canadian Payments Association (Note 2)	867,531	3,468,756
Investments—At amortized values (Note 3)		
Treasury bills of Canada	7,803,859	3,983,915
Other securities issued or guaranteed by Canada maturing within three years	2,969,430	3,459,594
Other securities issued or guaranteed by Canada not maturing within three years	7,437,840	8,223,748
Other investments	1,024,157	2,633
	19,235,286	15,669,890
Bank premises (Note 4)	138,472	118,471
Cheques drawn on members of the Canadian Payments Association (Note 8)		767,344
Accrued interest on investments	323,363	345,224
Collections and payments in process of settlement Government of Canada (net) (Note 8)		145,771
Other assets	57,008	49,830
	20,944,715	21,134,590

LIABILITIES	1986	1985
Capital paid up (Note 5)	5,000	5,000
Rest fund (Note 6)	25,000	25,000
Notes in circulation	17,911,360	16,671,992
Deposits		
Government of Canada	48,647	313,416
Chartered banks	2,446,039	2,201,122
Other members of the Canadian Payments Association	241,211	205,528
Other deposits	159,132	168,238
	2,895,029	2,888,304
Liabilities payable in foreign currencies		
Government of Canada	86,992	371,943
Other	27	27
	87,019	371,970
Bank of Canada cheques outstanding (Note 8)	11,351	935,793
Other liabilities (Note 7)	9,956	236,531
	20,944,715	21,134,590

See accompanying notes to the financial statements.

G. K. BOUEY
Governor

J. E. H. CONDER
Chief Accountant

BANK OF CANADA—*Continued*

STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

	1986	1985
Revenue		
Revenue from investments and other sources net of interest paid on deposits of $6,601 ($4,552 in 1985)	2,092,189	2,027,447
Expense		
Salaries[1]	62,234	57,018
Contributions to pension and insurance funds[2]	7,040	8,073
Other staff expenses[3]	1,411	1,564
Directors' fees	109	70
Auditors' fees and expenses	740	380
Taxes—Municipal and business	8,161	7,496
Banknote costs	32,561	33,007
Data processing and computer costs	5,745	5,142
Premises maintenance—Net of rental income[4]	14,805	12,585
Printing of publications	541	459
Other printing and stationery	2,119	1,831
Postage and express	2,158	2,106
Telecommunications	1,574	1,817
Travel and staff transfers	2,009	2,112
Other expenses	2,067	1,770
	143,274	135,430
Depreciation on buildings and equipment	12,449	11,986
	155,723	147,416
Net revenue payable to Receiver General for Canada	1,936,466	1,880,031

See accompanying notes to the financial statements.

(1) Salaries include overtime and are for Bank staff other than those engaged in premises maintenance. The number of employee years worked by such staff (including temporary, part-time and overtime work) was 2,289 in 1986 compared with 2,215 in 1985.

(2) Contributions to pension and insurance funds for Bank staff other than those engaged in premises maintenance.

(3) Other staff expenses include retirement allowances and educational training costs.

(4) Premises maintenance comprises building and equipment maintenance expenses including related staff costs.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Significant Accounting Policies

The financial statements of the Bank conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's by-laws. The significant accounting policies of the Bank are:

(a) Revenues and Expenses

Revenues and expenses are accounted for on the accrual basis except for interest on advances to a bank ordered to be wound up where interest is recorded as received.

(b) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition are included in revenue.

(c) Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

(d) Bank Premises

Bank premises, consisting of land, buildings and equipment, are recorded at cost less accumulated depreciation. Depreciation is calculated on the declining balance method using the following annual rates:

Buildings	5%
Computer equipment	35%
Other equipment	20%

2. Advances to Members of the Canadian Payments Association

Advances as at December 31, 1986 include a total of $790,831,007 ($1,575,555,885 in 1985) provided to the Canadian Commercial Bank and the Northland Bank for which winding-up orders have been issued by the courts. The liquidators appointed by the courts were also appointed as agents of the Bank of Canada for the purpose of realizing on the loan portfolios held as security against the respective advances.

To ensure the maximum return on the realization of the loan portfolios, the liquidations may extend over several years. On the basis of the information available at December 31, 1986, it is the opinion of the Bank of Canada that its advances will be fully repaid from the proceeds of the liquidations.

3. Investments

Included are securities of the Government of Canada held under Purchase and Resale Agreements (PRA). As at December 31, 1986 there were no securities held under PRA ($75,145,489 in 1985).

BANK OF CANADA—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

4. Bank Premises

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land and buildings	138,572	53,820	84,752	63,200
Computer equipment	26,436	17,678	8,758	9,721
Other equipment	34,964	20,411	14,553	13,112
	199,972	91,909	108,063	86,033
Projects in progress	30,409		30,409	32,438
	230,381	91,909	138,472	118,471

5. Capital

The authorized capital of the Bank is $5,000,000 divided into 100,000 shares of the par value of $50 each. The shares are fully paid and in accordance with the Bank of Canada Act have been issued to the Minister of Finance, who is holding them on behalf of Canada.

6. Rest Fund

The rest fund was established by the Bank of Canada Act and represents the general reserve of the Bank. In accordance with the Act, the rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25,000,000 in 1955. Subsequently all net revenues have been paid to the Receiver General for Canada.

7. Other Liabilities

As at December 31, 1986, all net revenue for 1986 had been paid to the Receiver General for Canada. (In 1985, $230,031,132 was paid subsequent to year-end).

8. Settlement of Daily Clearing of Cheques and Other Payment Items

In response to a request from the Canadian Payments Association, the Bank of Canada took steps during 1986 to eliminate the effect of the one-day lag in the settlement of the daily clearing of cheques and other payment items among banks and other deposit-taking institutions. This change resulted in the elimination or substantial reduction in payment items in process of settlement, as reflected in the relevant categories in the Statement of Assets and Liabilities. The corresponding figures for 1985 reflect a one-day lag in settlement.

9. Contingent Liabilities

The Bank has agreed with the Bank for International Settlements to participate in an international initiative to provide credit facilities to the International Monetary Fund. The Bank's potential liability under this agreement, which expires in June 1988, is limited to the placing of deposits with the Bank for International Settlements, if required, to finance loans made under the facility. Pursuant to the agreement, the Bank is contingently liable in the amount of SDR 176,407,186 ($297,884,147 at the December 31, 1986 exchange rate).

During 1986 the Bank of Canada also participated in an international initiative to provide short-term credit facilities to the Banco de Mexico through the Bank for International Settlements. Under this arrangement, the Bank's potential liability is limited to the placing of deposits with the Bank for International Settlements in the event that repayments due under the credit facility are not met. As at December 31, 1986, the Bank of Canada's contingent liability on the principal amount outstanding under this arrangement was U.S. $16,356,635 ($22,580,334 at the December 31, 1986 exchange rate); a repayment by the Banco de Mexico on January 5, 1987 reduced the Bank of Canada's potential liability to U.S. $10,160,923 ($13,961,108 at the January 5, 1987 exchange rate).

SUMMARY PAGE

CANADA COUNCIL

MANDATE

To foster and promote the study, enjoyment and production of works in the arts; to coordinate UNESCO activities in Canada and Canadian participation in various UNESCO activities abroad.

BACKGROUND

The Council receives a parliamentary grant each year for its operations. As well, it has income from the $50 million Endowment Fund which was created by its Act and from monies and properties donated to the Council and administered as Special Funds. It is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario K1P 5V8
STATUS	— exempt from Divisions I to IV of Part XII of the *Financial Administration Act;* — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1957, by *the Canada Council Act* (R.S.C. 1970, C-2)
CHAIRMAN	Maureen Forrester
CHIEF EXECUTIVE OFFICER	Peter Roberts
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Assets — Endowment Account	121.2	107.4	97.3	96.6
— Special Funds	38.8	35.9	31.7	29.4
Cash from Canada in the period				
— budgetary	85.5	74.2	72.6	65.6
— non-budgetary	nil	nil	nil	nil
Other revenues	9.6	11.6	11.5	10.8
Outlays on grants, services and art	84.3	69.4	70.4	65.6

CANADA COUNCIL

AUDITOR'S REPORT

TO THE CANADA COUNCIL AND THE
MINISTER OF COMMUNICATIONS

I have examined the balance sheets of the Endowment Account and Special Funds of the Canada Council as at March 31, 1987 and the statements of revenue and expenditure and equity of the Endowment Account and Special Funds and the statement of changes in financial position of the Endowment Account for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1987

ENDOWMENT ACCOUNT

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Cash and short-term deposits	9,853	6,814
Accrued interest	1,418	1,671
Accounts receivable	231	271
Prepaid expenses	239	393
Investments (Note 4)	96,785	87,124
Equipment and leasehold improvements (Note 5)	1,470	809
Works of art	11,249	10,327
	121,245	107,409

LIABILITIES	1987	1986
Bank overdraft	3,828	
Grants payable	19,081	19,285
Accounts payable and accrued liabilities	1,649	1,762
Deferred credits (Note 6)	392	985
Due to Special Funds	2,483	2,245
Due to Special Trusts (Note 7)	1,307	873
Provision for employee termination benefits	799	1,049
	29,539	26,199
EQUITY		
Fund capital		
Principal, established pursuant to Section 14 of the Act	50,000	50,000
Accumulated net gains on disposal of investments	26,121	13,850
	76,121	63,850
Contributed surplus—Works of art	11,249	10,327
	87,370	74,177
Surplus		
Appropriated	2,700	2,300
Unappropriated	1,636	4,733
	4,336	7,033
	91,706	81,210
	121,245	107,409

Approved by the Council:

PETER BROWN
Treasurer

JACQUES LEFEBVRE
Vice-Chairman

CANADA COUNCIL—*Continued*

SPECIAL FUNDS

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Cash and short-term deposits	2,845	3,077
Accrued interest	509	625
Investments (Note 4)	32,961	29,973
Due from Endowment Account	2,483	2,245
	38,798	35,920

LIABILITIES	1987	1986
Grants payable	2,355	3,189
EQUITY		
Fund capital		
Principal	30,484	30,256
Accumulated net gains on disposal of investments	5,338	1,936
	35,822	32,192
Surplus	621	539
	36,443	32,731
	38,798	35,920

Approved by the Council:

PETER BROWN
Treasurer

JACQUES LEFEBVRE
Vice-Chairman

STATEMENT OF REVENUE AND EXPENDITURE
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Revenue		
Parliamentary grants	85,311	74,244
Interest and dividends	8,423	10,470
Art Bank rental fees	737	670
Cancelled grants, approved in previous years, and refunds	431	471
	94,902	85,855
Expenditure		
Arts		
Grants and services	83,166	68,441
Administration (Schedule)	7,145	6,255
Works of art	922	811
	91,233	75,507
Canadian Commission for UNESCO		
Administration (Schedule)	741	838
Grants	182	143
	923	981
General administration (Schedule)	5,443	5,608
	97,599	82,096
Excess of revenue over expenditure (expenditure over revenue) for the year	(2,697)	3,759

CANADA COUNCIL—*Continued*

STATEMENT OF EQUITY OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	Fund capital				Contributed surplus		Surplus			
		Accu-mulated net gains on disposal of invest-ments	Total		Total				Total	
	Principal		1987	1986	1987	1986	Appro-priated	Unappro-priated	1987	1986
Balance at beginning of the year	50,000	13,850	63,850	59,586	10,327	9,516	2,300	4,733	7,033	3,274
Net gains on disposal of investments		12,271	12,271	4,264						
Works of art purchased during the year					922	811				
Increase in appropriated surplus							400	(400)		
Excess of revenue over expenditure (expenditure over revenue) for the year								(2,697)	(2,697)	3,759
Balance at end of the year	50,000	26,121	76,121	63,850	11,249	10,327	2,700	1,636	4,336	7,033

STATEMENT OF REVENUE, EXPENDITURE AND EQUITY OF THE SPECIAL FUNDS (NOTE 2)
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	Izaak Walton Killam Memorial	Killam Special Scholar-ship	Jean A. Chalmers	Molson Prize	Lynch-Staunton	Frances and J.P. Barwick	John B.C. Watkins	Vida Peene	Coburn Fellow-ship Trust	Total 1987	Total 1986
Revenue and expenditure											
Revenue											
Interest and dividends	1,439	1,211	47	99	100	8	17	52	1	2,974	3,231
Expenditure											
Grants	1,029	908	42	100	156			52		2,287	2,547
Administration	166	204	3	4						377	300
	1,195	1,112	45	104	156			52		2,664	2,847
Excess of revenue over expenditure (expenditure over revenue) for the year	244	99	2	(5)	(56)	8	17		1	310	384
Equity											
Fund capital											
Principal											
Balance at beginning of the year	13,315	14,029	500	1,000	699	93		600	20	30,256	27,809
Cash received											2,187
Net income capitalized	127	101								228	260
Balance at end of the year	13,442	14,130	500	1,000	699	93		600	20	30,484	30,256
Accumulated net gains on disposal of investments											
Balance at beginning of the year	987	651		122	176					1,936	881
Net gains on disposal of investments	1,664	1,400		166	172					3,402	1,055
Balance at end of the year	2,651	2,051		288	348					5,338	1,936
	16,093	16,181	500	1,288	1,047	93		600	20	35,822	32,192
Surplus											
Balance at beginning of the year	69	2	28	5	312	8	115			539	415
Excess of revenue over expenditure (expenditure over revenue) for the year	244	99	2	(5)	(56)	8	17		1	310	384
Net income capitalized	(127)	(101)								(228)	(260)
Balance at end of the year	186		30		256	16	132		1	621	539
	16,279	16,181	530	1,288	1,303	109	132	600	21	36,443	32,731

CANADA COUNCIL—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operations		
Excess of revenue over expenditure (expenditure over revenue) for the year	(2.697)	3,759
Items not affecting cash		
Depreciation and amortization	332	174
Loss on disposal of equipment	27	
Employee termination benefits	(250)	34
	(2,588)	3,967
Decrease (increase) in accrued interest	253	(229)
Decrease (increase) in accounts receivable	40	(146)
Decrease (increase) in prepaid expenses	154	(93)
Increase (decrease) in grants payable	(204)	834
Increase (decrease) in accounts payable	(113)	484
Increase (decrease) in deferred credits	(593)	543
Increase in amount due to Special Funds and Special Trusts	672	867
Funds provided by (applied to) operation activities	(2,379)	6,227
Investment		
Acquisition of equipment and leasehold improvements	(1,079)	(717)
Proceeds on disposal of equipment	59	
Increase in investments	(9,661)	(6,667)
Funds applied to investment activities	(10,681)	(7,384)
Financing		
Net gains on disposal of investments	12,271	4,264
Funds generated by financing activity	12,271	4,264
Increase (decrease) in funds	(789)	3,107
Funds at beginning of the year	6,814	3,707
Funds (cash, short-term deposits and bank overdraft) at end of the year	6,025	6,814

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and operations

The Canada Council was established by the Canada Council Act in 1957 which authorized the creation of an Endowment Fund of $50 million. Except for the annual parliamentary grant, monies or properties donated to the Council pursuant to Section 20 of the Act are generally accounted for as Special Funds. The Council is not an agent of Her Majesty. Its objectives are to foster and promote the study, enjoyment and production of works, in the arts.

2. Special funds

(a) Izaak Walton Killam Memorial

A bequest of $12,339,615 in cash and securities was received from the estate of the late Mrs. Dorothy J. Killam for the establishment of the Izaak Walton Killam Memorial Fund for Advanced Studies "to provide scholarships for advanced study or research at universities, hospitals, research or scientific institutes, or other equivalent or similar institutions both in Canada and in other countries in any field of study or research other than the 'arts' as presently defined in the Canada Council Act and not limited to the 'humanities and social sciences' referred to in such Act."

The bequest contains the following provisions: "the Fund shall not form part of the Endowment Account or otherwise be merged with any assets of the Council"; and "in the event that the Canada Council should ever be liquidated or its existence terminated or its powers and authority changed so that it is no longer able to administer any Killam trust, the assets forming any such Killam trust shall thereupon be paid over to certain universities which have also benefited under the will."

The cash and securities received and the proceeds have been invested in a separate portfolio.

(b) Killam Special Scholarship

This fund was established by way of securities received from the late Mrs. Dorothy J. Killam. Dividends and proceeds from the redemption of those securities amounted to $13,653,344. The net income from this fund is available to provide fellowship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent of similar institutions in Canada.

(c) Jean A. Chalmers

An endowment of $500,000 in cash was received from Mrs. Floyd S. Chalmers to establish a special Jean A. Chalmers Fund for the crafts. In consultation with the Canadian Crafts Council, the income of the fund is used to provide a small number of special project grants for the development or advancement of the crafts in Canada.

(d) Molson Prize

Gifts of $1,000,000 were received from the Molson Foundation for the establishment of the Molson Prize Fund. The income of the fund is used for awarding cash prizes to Canadians "for outstanding achievement in the fields of the Arts, the Humanities or the Social Sciences that enriches the cultural or intellectual heritage of Canada or contributes to national unity". There is no restriction placed on the recipient as to the use of the prize.

(e) Lynch-Staunton

This fund was established by a bequest in cash of $699,066 received from the estate of the late V.M. Lynch-Staunton, the income from which is available for the regular programmes of the Council.

(f) Frances Elizabeth Barwick and J.P. Barwick

A bequest of $40,000 in cash was received from the estate of the late Mrs. Frances Elizabeth Barwick with the condition that "such bequest be applied for the benefit and encouragement of the arts". A bequest of $53,000 was also received from the estate of J.P. Barwick "for the benefit of the musical division of the arts and for the encouragement of the musical arts". The total fund is to be used for the benefit of the musical division.

(g) John B.C. Watkins

This fund was established by a bequest consisting of the net income from the residue of the estate of the late John B.C. Watkins to provide scholarships for postgraduate studies in specified countries.

(h) Vida Peene

This fund was established by a bequest in cash of $599,761 received from the late Vida Peene to provide payments to specified organizations.

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

(i) Funds will eventually be received from the following bequests:

(a) Edith Davis Webb
This fund, estimated at $400,000, is intended "for the purpose of making grants or establishing scholarships for musical study in such manner as the Council shall determine".

(b) Coburn Fellowship Trust
This fund, the amount of which cannot be determined at this time, is to provide for exchanges of scholars between Israel and Canada. It consists of an amount of $100 from Kathleen Coburn to establish this fund as well as a $20,000 donation received from F.E. Coburn.

3. Significant accounting policies

(a) Investments

Bonds, debentures, equities and mortgages are recorded at cost. The portfolios of two Special Funds (Molson Prize and Lynch-Staunton) are merged with the Endowment Account. The participation of each fund was calculated on the basis of market value. Interest, dividends, gains and losses on disposal of investments are allocated to each fund based on the percentages established at the beginning of each quarter.

(b) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives on the straight-line method, as follows:

Equipment	3 to 5 years
Leasehold improvements	term of the lease (maximum 10 years)

(c) Works of art

Works of art are recorded at cost.

(d) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(e) Gains and losses on disposal of investments

Pursuant to subsection 19(2) of the Act, net gains on disposal of investments are credited to the fund capital. Net losses on disposal of investments are charged against this account to the extent of the balance available therein. In the event that losses exceed the balance available in the account, the excess is recorded as an expenditure in the year of realization.

(f) Contributed surplus

Amounts paid during the year for the purchase of works of art are expensed. Such purchases are then capitalized as contributed surplus—Works of art and no depreciation is recorded.

(g) Appropriated surplus

The Council has established a reserve to reduce the erosion of value of the original endowment due to inflation. Any changes in this account are approved by the Council.

(h) Capitalization of net income of Special Funds

The Council capitalizes 10% of the revenue less administration expenditure of the Izaak Walton Killam Memorial Fund for Advanced Studies and the Killam Special Scholarship Fund, in accordance with advice received from the trustees of these Funds in order to preserve the equity of these Funds for future beneficiaries. However, for the purposes of the Funds, the Council reserves the right to draw at any time on the accumulated net income capitalized.

(i) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total liability of the Council.

(j) Grants

Grants approved by the Council are recorded as expenditure in the year determined by the Treasurer in consultation with the Arts Division. Cancelled grants, approved in previous years, and refunds are shown as revenue in the Endowment Account. For Special Funds, such items are deducted from the grants expenditure.

4. Investments

	1987		1986	
	Cost	Market value	Cost	Market value
	(in thousands of dollars)			
Endowment Account				
Equities	51,117	68,336	30,612	48,507
Bonds and debentures	43,323	49,021	53,844	60,750
Mortgages	2,345	2,207	2,668	2,464
	96,785	119,564	87,124	111,721
Special Funds				
Bonds and debentures	18,700	20,084	18,718	21,084
Equities	13,916	20,472	10,867	16,182
Mortgages	345	270	388	298
	32,961	40,826	29,973	37,564

5. Equipment and leasehold improvements

	1987			1986
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Equipment	1,230	491	739	505
Leasehold improvements	841	110	731	304
	2,071	601	1,470	809

6. Deferred credits

	1987	1986
	(in thousands of dollars)	
Deferred revenue—Art Bank	212	244
Canadian Commission for UNESCO	180	232
Deferred rent		509
	392	985

The deferred credit amount from the Canadian Commission for UNESCO represents funds received for specific programs for which expenditures have not yet been incurred

CANADA COUNCIL—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

7. Due to Special Trust

These funds have been accounted for separately due to special conditions related to the donations.

(i) Glenn Gould Prize Fund

The Council received $475,113 from the Glenn Gould Memorial Foundation to provide a prize of $50,000 every three years (funds permitting) to an outstanding individual for his/her original contribution in the field of Music and Communications. Since inception, the fund has earned $76,767, and has received a further advance of $50,000, and the balance stood at $601,880 at March 31, 1987.

(ii) Joseph S. Stauffer Fund

The Council received $350,000 from the Estate of Joseph S. Stauffer, the income from which is to provide prizes to encourage promising young Canadians in the fields of music, visual arts and literature. Since inception, the fund has earned $51,140, and the balance stood at $401,140 at March 31, 1987.

(iii) The Duke and Duchess of York Prize in Photography

During the year, the Government of Canada endowed $170,000 to Council as a wedding gift to The Duke and Duchess of York. The income from this endowment is to be used to provide an annual scholarship to a professional artist for personal creative work or advanced study in photography. The endowment earned $1,860 during the year and the value of the endowment was $171,860 at March 31, 1987.

(iv) The Gershon Iskowitz Prize

The Gershon Iskowitz Foundation has created the Gershon Iskowitz Prize to be administered and awarded by Council every two years to a mature, successful professional Canadian artist for personal creative work or continuing research in visual arts. During the year, The Gershon Iskowitz Foundation donated $29,750 to Council to cover the prize and its administration. As at March 31, 1987, the balance stood at $2,791.

(v) Visiting Foreign Artists Program

The Visiting Foreign Artists Program is administered by the Arts Awards Service of the Canada Council on behalf of the Department of External Affairs. It is a residency program through which professional Canadian organizations receive assistance to invite distinguished foreign artists from any country outside Canada for periods ranging from two weeks to four months. As at March 31, 1987, the balance stood at $128,908.

8. Lease commitments

The Council is a party to long-term leases in respect to rental accommodation. The aggregate minimum annual rental is as follows:

	(in thousands of dollars)
1988	1,511
1989	1,521
1990	1,527
1991	1,430
1992	1,410

9. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE OF ADMINISTRATION EXPENDITURE
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	Arts	Canadian Commission for UNESCO	General	Total 1987	Total 1986
Salaries	4,811	474	2,741	8,026	8,041
Employee benefits	454	48	285	787	1,055
Staff travel	693	58	82	833	720
Office accommodation	178		608	786	773
Communications	435	37	160	632	521
Informatics	14	7	321	342	210
Depreciation and amortization	42		290	332	174
Office expenses and equipment	46	10	262	318	203
Printing, publications and duplicating	185	23	109	317	283
Investment portfolio management			300	300	199
Council boards' expenses including members' honoraria	65	62	158	285	218
Professional and special services	151	21	107	279	225
Miscellaneous	71	1	20	92	79
	7,145	741	5,443	13,329	12,701

SUMMARY PAGE

CANADA DEPOSIT INSURANCE CORPORATION

MANDATE

To provide limited insurance in respect of deposits with federal institutions (banks, trust and loan companies) and approved provincial institutions (trust and loan companies).

BACKGROUND

The corporation was established by the *Canada Deposit Insurance Corporation Act* in 1967. Member institutions pay annual premiums to the Deposit Insurance Fund to meet depositors' claims. However, recent payments to depositors of insolvent financial institutions have caused this fund to have a net deficit position.

CORPORATION DATA

HEAD OFFICE	320 Queen Street P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas Hockin, P.C., M.P., Minister of State for Finance.
DEPARTMENT	Finance
YEAR AND MEANS OF INCORPORATION	1967; by *The Canada Deposit Insurance Corporation Act* (R.S.C. 1970, C-3, as amended).
CHIEF EXECUTIVE OFFICER	Charles C. de Léry
CHAIRMAN	Ronald McKinlay
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984 (restated)**	**1983**
At the end of the year				
Total Assets	1,530	1,676	830	1,157
Obligations to the private sector	1,277	1,034	975	805
Obligations to Canada	965	956	nil	30
Equity of Canada*	(1,245)	(1,235)	(827)	(332)
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	16	956	(30)	30

* Represents deficiency in the Insurance Fund.

CANADA DEPOSIT INSURANCE CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1986 and the statements of investment and administrative operations, deposit insurance fund and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy as described in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 8, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Treasury bills and term deposits	63,251	64,191
Premiums and other accounts receivable	8,688	16,951
Income taxes recoverable		44,025
Mortgages	747	1,039
Loans to member institutions (Note 4)	497,414	500,062
Claims in respect of insured deposits (Note 5)	959,324	1,049,895
Furniture, equipment and leasehold improvements	584	206
	1,530,008	1,676,369

LIABILITIES	1986	1985
Bank indebtedness	840	10,532
Accounts payable	3,982	2,626
Accrued liability (Note 6b)	275,000	
Due to member institutions		27,647
Loans from member institutions	1,001,044	995,895
Loans from Consolidated Revenue Fund (Note 7)	965,212	956,211
	2,246,078	1,992,911
General provision for loss (Note 8)	529,215	918,836
	2,775,293	2,911,747
DEPOSIT INSURANCE FUND		
Deficiency at year end	(1,245,285)	(1,235,378)
	1,530,008	1,676,369

Approved by the Board:

R. McKINLAY
Chairman

R.M. HAMMOND
Director

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

STATEMENT OF INVESTMENT AND ADMINISTRATIVE OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985 (restated)
Interest revenue		
Income tax recovery	5,640	
Treasury bills	2,859	3,835
Other	134	256
	8,633	4,091
Expenses		
Inspection and other fees	5,191	5,254
General, administrative and other	1,112	1,008
Salaries and employee benefits	1,432	709
	7,735	6,971
Net earnings (loss) from investment and administrative operations	898	(2,880)

STATEMENT OF DEPOSIT INSURANCE FUND FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985 (restated)
Deficiency, beginning of year	1,235,378	826,787
Insurance operations		
Premiums	216,792	57,876
Interest on loans to member institutions	109,553	105,629
Other interest	90	3,934
	326,435	167,439
Cost of guarantees (Note 6)	475,000	
Interest on loans from member institutions	108,859	108,606
Interest—Consolidated Revenue Fund	82,820	35,101
Interest in respect of insured deposits	561	9,443
Provision for loss (reversal)	(330,000)	420,000
	337,240	573,150
Deficiency from insurance operations for the year	10,805	405,711
Deficiency before net earnings (loss) from investment and administrative operations	1,246,183	1,232,498
Net earnings (loss) from investment and administrative operations	898	(2,880)
Deficiency, end of year	1,245,285	1,235,378

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Cash provided by (used in) Investment and Administrative Operations		
Interest revenue	8,601	4,084
Inspection and other fees	(6,275)	(4,199)
General, administrative and other	(1,133)	(908)
Salaries and employee benefits	(1,421)	(666)
Income tax recovery	44,025	
Purchase of furniture, equipment and leasehold improvements	(470)	(88)
	43,327	(1,777)
Cash provided by (used in) Insurance Activities		
Premiums	219,054	66,823
Cost of guarantees	(200,000)	
Payment of claims in respect of insured deposits	(97,933)	(1,029,047)
Recoveries of claims in respect of insured deposits	144,329	120,252
Interest on loans to member institutions	7,284	6,758
Interest in respect of insured deposits	(1,200)	(9,443)
Realization of mortgages	283	1,329
Interest on mortgages	93	188
Interest—Consolidated Revenue Fund	(90,271)	(13,877)
Repayment of due to member institutions	(27,647)	
Loans to member institutions	(29,076)	(81,361)
Repayment of loans to member institutions	23,033	900
Quebec sales tax on insurance premiums	1,023	187
	(51,028)	(937,291)
Non-cash Insurance Activities		
Loans to member institutions	(28,197)	(81,984)
Recoveries of claims in respect of insured deposits	23,048	40,000
	(5,149)	(41,984)
Cash provided by (used in) Financing Activities		
Loans from Consolidated Revenue Fund	260,000	935,000
Repayment of loans from Consolidated Revenue Fund	(243,547)	
	16,453	935,000
Non-cash Financing Activities		
Loans from member institutions	5,149	41,984
Increase (decrease) in cash	8,752	(4,068)
Cash balance at beginning of year	53,659	57,727
Cash balance at end of year	62,411	53,659
Cash is comprised of		
Treasury bills and term deposits	63,251	64,191
Bank indebtedness	(840)	(10,532)
	62,411	53,659

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Authority and objective

The Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act (the Act). It is a Crown corporation named in Schedule C Part I of the Financial Administration Act.

The Corporation's principal objective is to provide insurance on deposits with member institutions (banks, and federal and provincial trust and loan companies) up to $60,000 per depositor per institution. Section 11 of the Act empowers the Corporation to take such action as it deems necessary to fulfill its mandate including the right to acquire assets from, or advance funds to member institutions to reduce or avert a threatened loss to the Corporation.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

These financial statements do not reflect the assets, liabilities and operations of member institutions whose operations the Corporation is financing in order to secure an orderly wind down.

The more significant policies adopted are set out below.

Premium recognition

Premiums are based on insured deposits accepted by member institutions as at April 30 of each year and are collectible in two equal installments on June 30 and December 31 of the year. Premiums are recognized when assessed.

General provision for loss

The general provision for loss reflects the Corporation's best estimate of losses in respect of member institutions against which the Corporation has or is certain to have a financial claim. This estimate includes consideration of losses expected in respect of claims arising from payments made to insured depositors, loans to member institutions and operations for the duration of the wind down period of member institutions under management by agents.

The general provision for loss is reduced by identified losses on loans to member institutions or claims in respect of insured deposits.

The general provision for loss does not include an estimated contingent liability for potential claims of depositors of any member institutions not specifically identified as being in difficulty as such claims would be impossible to estimate.

Loans to Member Institutions and Claims in Respect of Insured Deposits

Loans to member institutions and claims in respect of insured deposits are reported net of identified losses.

Interest recognition

The Corporation charges interest on loans advanced directly or indirectly to member institutions that are operating under agency agreements. It ceases to charge interest when a member institution is placed in liquidation. It charges interest on other loans in accordance with the terms of the specific loan agreements. Accrued interest is included on the balance sheet as part of "loans to member institutions".

3. Change in accounting policy

During the year, the Corporation changed its method of accounting for interest receipts and payments. In prior years, interest receipts on insured deposits and mortgages and interest payments on loans from the Consolidated Revenue Fund and in respect of insured deposits were included in the statement of investment and administrative operations. Since the transactions giving rise to these receipts and payments were made for the benefit of member institutions, the Corporation has decided to include the resulting interest receipts and payments in the statement of deposit insurance fund. This change has been applied retroactively. The effect of this change has been to reduce the loss from investment and administrative operations and to increase the deficiency from insurance operations by $83.3 million for 1986 (1985—$39.7 million).

4. Loans to member institutions

Certain member institutions that have experienced financial difficulties have been placed under the control of regulatory authorities. In accordance with Section 11 of the CDIC Act, the Corporation entered into agency agreements with other member institutions (agents) to ensure that the respective operations of institutions experiencing financial difficulties, would be wound down in an orderly fashion over a five year term with a majority of these agreements terminating in 1988. The liabilities and operations of these companies are being financed on a continuing basis by way of direct loans or by the respective agents providing loans on behalf of the Corporation. The Corporation has also made direct loans to other member institutions experiencing financial difficulties.

As at December 31, 1986, direct loans or loans made by agents on behalf of the Corporation were as follows:

Member institutions under agency agreements	Direct	By agents	Total 1986	Total 1985
	(in thousands of dollars)			
CCB Mortgage Investment Corporation	50,936		50,936	47,929
Crown Trust Company		211,117	211,117	235,500
District Trust Company		14,510	14,510	7,840
Fidelity Trust Company	47,481	365,189	412,670	360,131
Greymac Mortgage Corporation	68,189	61,600	129,789	113,738
Greymac Trust Company	50,131	151,250	201,381	196,470
	216,737	803,666	1,020,403	961,608
In liquidation				
Amic Mortgage Investment Corporation				933
Canadian Commercial Bank				75,000
Seaway Mortgage Corporation		54,135	54,135	76,234
Seaway Trust Company		132,501	132,501	137,451
		186,636	186,636	289,618
Other				
Bank of British Columbia	3,200		3,200	
	219,937	990,302	1,210,239	1,251,226
Identified losses	175,840	536,985	712,825	751,164
Balance	44,097	453,317	497,414	500,062

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

The Corporation has registered a floating charge on all the assets of member institutions under agency agreements as security for the loans. During the term of the agreements, the agents are paying all liabilities on maturity and are disposing of the assets in a manner to optimize recovery. The assets of these member institutions consist primarily of mortgages and real estate. The ultimate realization of these assets is dependent on the state of economy, interest rate levels and the real estate market.

5. Claims in respect of insured deposits

When the Corporation pays a depositor's claim it acquires a subrogation of the rights and interest of the depositor as against the assets of the member institution. The Corporation's claims in respect of payments to insured depositors of the following member institutions are identified below:

	1986	1985
	(in thousands of dollars)	
Amic Mortgage Investment Corporation	22,791	22,768
Astra Trust Company	339	339
Canadian Commercial Bank	276,836	277,000
Columbia Trust Company	84,309	
Continental Trust Company	41,008	113,901
London Loan Limited	23,854	23,854
Northguard Mortgage Corporation	27,634	27,552
Northland Bank	317,503	316,083
Pioneer Trust Company	81,721	116,015
Seaway Trust Company	86,968	110,062
Western Capital Trust Company	19,321	42,321
	982,284	1,049,895
Identified losses	22,960	
	959,324	1,049,895

6. Cost of guarantees

(a) The Corporation, under the general powers of Section 11 of the CDIC Act, made a payment of $200 million to The Hongkong and Shanghai Banking Corporation for purposes of reducing a risk or averting a threatened loss to the Corporation. In exchange for this payment, the Hongkong Bank of Canada assumed substantially all of the assets and obligations of the Bank of British Columbia and The Hongkong and Shanghai Banking Corporation provided the Corporation with a number of undertakings, the most significant of which is the guarantee of the deposit liabilities of the Hongkong Bank of Canada, including those deposit liabilities acquired by the Hongkong Bank of Canada from the Bank of British Columbia.

(b) Subsequent to year end, the Corporation entered into an agreement ("North West Trust Company Rehabilitation Agreement") whereby it agreed to make a loan in the amount of $275 million to the North West Trust Company, a member institution. The right to repayment of this loan will be assigned to the Province of Alberta. In exchange, the Province agrees to indemnify the Corporation for any loss occurring by reason of its obligation to make payment under a policy of deposit insurance. This loan will not be repaid to the Corporation; therefore, it has been charged to the deposit insurance fund rather than recorded as an asset. These financial statements reflect the related liability.

7. Loans from consolidated revenue fund

With the approval of the Governor in Council, the Corporation can borrow up to $1.5 billion from the Consolidated Revenue Fund. Bill C-42 was tabled in the House of Commons on March 3, 1987 and when enacted, will increase the Corporation's borrowing authority to $3 billion.

8. General provision for loss

	1986	1985
	(in thousands of dollars)	
Balance, beginning of year	918,836	676,569
Provision for loss (reversal)	(330,000)	420,000
	588,836	1,096,569
Less identified losses		
Loans to member institutions	36,661	177,733
Claims in respect of insured deposits	22,960	
	59,621	177,733
Balance, ending of year	529,215	918,836

The Corporation has not taken into account any estimate of the taxes payable by member institutions in arriving at its potential recoveries of claims in respect of insured depositors, and accordingly the general provision for loss. In a Notice of Ways and Means Motion tabled in the House of Commons by the Minister of Finance February 18, 1987, amendments to the Income Tax Act are proposed which will eliminate anomalies which may result in double taxation of a member institution in liquidation in respect of amounts paid by the Corporation to insured depositors of the institution.

9. Contingent liabilities

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. The Corporation does not believe it has any liability as a result of these actions and has therefore not provided for any potential claims.

10. Income taxes

The Corporation is subject to federal income taxes although it is not subject to taxation on premiums assessed and may not take a deduction for claims paid.

The Corporation has available losses which can be carried forward to reduce future years' earnings otherwise subject to taxation. Such losses total $158 million and expire as follows:

Taxation year	Expiry date	Amount
1984	1991	33,000,000
1985	1992	62,000,000
1986	1993	63,000,000
		158,000,000

CANADA DEPOSIT INSURANCE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

11. Deposit insurance fund deficiency

The Corporation is currently assessing premiums at the maximum rate of 1 /10 of 1% of the insured deposits as allowed by law which is due to expire on April 30, 1987. Bill C-42 was tabled in the House of Commons on March 3, 1987 and when enacted, will provide the authority, with Governor in Council approval, to set the premium rate to a maximum of 1/6 of 1% of the insured deposits.

12. Insured deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1986 and 1985 were as follows:

	1986	1985
	(in billions of dollars)	
Federal Institutions	173	160
Provincial Institutions	15	14
	188	174

13. Long-term operating lease commitments

The following is a schedule of future minimum lease payments for premises expiring in 1991.

Year Ending December 31	Amount
1987	422,434
1988	436,406
1989	436,406
1990	436,406
1991	213,767
	1,945,419

14. Comparative figures

Certain of the 1985 figures have been reclassified so as to conform with the presentation adopted for 1986, as follows:

(a) Loans to member institutions have been increased and claims in respect of insured deposits decreased by $47,929,000 to reflect the reclassification of the amount receivable from CCB Mortgage Investment Corporation.

(b) Loans to member institutions have been increased and claims in respect of insured deposits decreased by $40,000,000 to record a change in the application of amounts recovered from Seaway Trust Company.

(c) Comparative figures in the statement of changes in financial position have been restated to give effect to the changes required by the Canadian Institute of Chartered Accountants in the presentation of such statements.

(d) Other comparative figures have been restated as explained in Note 3.

SUMMARY PAGE

CANADA DEVELOPMENT INVESTMENT CORPORATION

MANDATE

To privatize its holdings while gaining a fair return for Canada in the process and, in the interim, to ensure that its subsidiaries are managed in a sound commercial manner.

BACKGROUND

CDIC was incorporated in 1982 to hold and manage enterprises and investments assigned to it by the federal government, and to divest those enterprises and investments when commercially feasible. Investments currently owned by CDIC, or assigned to it for management are Eldorado Nuclear Limited, Varity Corporation and Massey Combines Corporation. Divestitures include: the sale of The de Havilland Aircraft of Canada, Limited to the Boeing Company on January 31, 1986; the sale of Canadair Limited to Bombardier Inc. on December 23, 1986; the public sale of 21.8 million shares of Canada's equity holdings of 30.7 million shares in Canada Development Corporation; and the sale of the assets and operations of Teleglobe Canada to Memotec Data Inc. on April 3, 1987.

CORPORATION DATA

HEAD OFFICE	Suite 4520 1 First Canadian Place Toronto, Ontario M5X 1A4
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Barbara McDougall, P.C., M.P. Minister of State (Privatization)
YEAR AND MEANS OF INCORPORATION	1982; by Canada Development Corporation under the *Canada Business Corporations Act*. Letters patent, May 26, 1982
CHIEF EXECUTIVE OFFICER	Vacant
CHAIRMAN	W. Darcy McKeough
AUDITOR	Peat, Marwick, Mitchell & Co. and the Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends December 31.

	1986	**1985**	**1984**	**9 months to Dec. 31, 1983 (as restated)**
At the end of the period				
Total Assets	336	642	679	175
Obligations to the private sector*	nil	144	1,261	1,170
Obligations to Canada	nil	nil	nil	negl
Equity of Canada	287	485**	(709)	(1,042)
Cash from Canada to subsidiaries in the period				
— budgetary	(111)	500	550	300
— non-budgetary	nil	nil	nil	nil

* The obligations were largely those of a subsidiary, Canadair Financial Corporation Inc. However, legislation in June 1985 provided authority for the assumption by Canada of this Canadair debt. In that year $1,044 million of it was assumed and the $144 million principal balance was assumed in 1986; accrued interest of approximately $40 million was also assumed, for a total of $1.23 billion to Canada's account. Since then, Canada has discharged all but $333 million of these obligations, in disbursements separate from the Cash from Canada amounts shown above.

**The 1985 assumption of debt by Canada was allocated to contributed surplus in CDIC's accounts and was the main factor in reversing the Equity amounts recorded.

CANADA DEVELOPMENT INVESTMENT CORPORATION

AUDITORS' REPORT

PRESIDENT OF THE TREASURY BOARD

We have examined the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1986 and the consolidated statements of income (loss) and accumulated deficit, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the charters and by-laws of the corporation and its wholly-owned subsidiaries.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Toronto, Canada
February 27, 1987

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current assets		
Cash and short-term investments	11,960	3,588
Cash restricted as to use (Note 4)	88,571	
Other receivables	178	2,975
Current portion of notes receivable	5,400	
	106,109	6,563
Investments		
Non-consolidated subsidiaries (Note 5)	140,646	509,006
Portfolio investments (Note 6)	26,349	126,349
	166,995	635,355
Notes receivable	43,200	
Canadair technology rights (Note 5)	20,000	
Other	91	151
	336,395	642,069

LIABILITIES AND SHAREHOLDER'S EQUITY	1986	1985
Current liabilities		
Accounts payable and accrued liabilities	49,676	3,529
Accrued interest		9,164
Current portion of long-term debt		143,864
	49,676	156,557
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid—101 common shares	1	1
Contributed surplus	3,506,765	3,351,848
Accumulated deficit	(3,220,047)	(2,866,337)
	286,719	485,512
Contingencies (Note 5)		
	336,395	642,069

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

PIERRE DES MARAIS
Director

PAUL M. MARSHALL
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Net income (loss) of subsidiaries		
Canadair Limited	96,858	27,574
Eldorado Nuclear Limited	(64,358)	(57,204)
The de Havilland Aircraft of Canada, Limited		(94,426)
	32,500	(124,056)
Corporate expenses		
Operating expenses, net (Note 7)	1,167	3,531
Financial expense	2,183	211,209
Provisions for losses		
Massey Combines Corporation (Note 6)	100,000	
The de Havilland Aircraft of Canada, Limited (Note 5)	15,000	46,656
Canadair Limited (Note 5)	122,860	
	241,210	261,396
Net loss	(208,710)	(385,452)
Accumulated deficit, beginning of year	(2,866,337)	(2,480,885)
	(3,075,047)	(2,866,337)
Dividends	(145,000)	
Accumulated deficit, end of year	(3,220,047)	(2,866,337)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Balance, beginning of year	3,351,848	1,772,007
Assumption of long-term debt of Cartierville Financial by the Government of Canada	154,917	1,079,841
Contributed in cash by the Government of Canada to subsidiaries		
Cartierville Financial		300,000
de Havilland		200,000
Balance, end of year	3,506,765	3,351,848

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operations		
Corporate operations	(1,167)	(3,531)
Item not requiring cash—Depreciation	60	49
Increase (decrease) in payables to related parties		(74,551)
Decrease in accounts payable	(1,424)	(10,648)
Increase (decrease) in other items	2,797	(56,935)
	266	(145,616)
Proceeds received on disposal of Canadair (net of cash restricted as to use)	111,000	
Cash portion of dividend received from Canadair	8,400	
	119,400	
Cash portion of dividend paid	(111,000)	
	8,666	(145,616)
Financing		
Contributed surplus (Cartierville Financial)	154,917	1,379,841
Decrease in long-term debt	(143,864)	(1,116,893)
Interest and financing expenses net of amortization of foreign exchange losses	(2,183)	(94,814)
Increase (decrease) in accrued interest	(9,164)	(28,793)
	(294)	139,341
Increase (decrease) in cash and short-term investments	8,372	(6,275)
Cash and short-term investments, beginning of year	3,588	9,863
Cash and short-term investments, end of year	11,960	3,588

The accompanying notes are an integral part of these consolidated financial statements.
For purposes of this statement, cash and increase (decrease) in cash excludes cash transactions relating to cash restricted as to use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986
(All dollar amounts are stated in thousands)

1. The corporation

Canada Development Investment Corporation ("the corporation") was incorporated on May 26, 1982 under the provisions of the Canada Business Corporations Act and is wholly-owned by Her Majesty in right of Canada. The corporation is subject to the Financial Administration Act and is an agent of Her Majesty.

2. Basis of presentation

In a statement dated October 30, 1984, the Minister of the Government of Canada responsible for the corporation announced the intention of the Government to cause the corporation to dispose of its investments in Massey-Ferguson Limited ("Massey-Ferguson"), now Varity Corporation ("Varity") and Massey Combines Corporation ("Massey Combines") (see Note 6), Canadair Limited ("Canadair"), The de Havilland Aircraft of Canada, Limited ("de Havilland") and Eldorado Nuclear Limited ("Eldorado") in an orderly fashion. Disposal of the corporation's investment in de Havilland and Canadair was completed in 1986. Any divestiture plan or proposal for Eldorado will require formal approval by the Government pursuant to the requirements of the Financial Administration Act. As no formal plans of divestiture have been presented for approval with respect to Eldorado, the corporation believes that it is appropriate to continue to carry the investment in Eldorado on the equity basis of accounting. Eventual disposal prices for Eldorado may be more or less than the carrying value.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Continued*

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of Cartierville Financial Corporation Inc. ("Cartierville Financial"), formerly Canadair Financial Corporation Inc., have been consolidated with those of the corporation.

(b) Investments in non-consolidated subsidiaries

The corporation's investment in a subsidiary originally acquired with the objective of its eventual disposition or privatization is accounted for on the equity basis, unless there is a formal plan, approved by the Government of Canada, to dispose of the investment, in which case the investment is carried at the lower of the equity basis carrying value and net realizable value. A consolidation of the corporation's financial statements and such subsidiaries has not been prepared as the corporation believes that the equity method provides a more informative presentation to the shareholder. The financial statements of the non-consolidated subsidiary is attached.

(c) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars in accordance with the temporal method. Under that method, monetary assets and liabilities are translated at the year-end rate, non-monetary assets and liabilities are translated at rates in effect on the dates of the transactions.

4. Cash restricted as to use

These funds are held in special accounts (primarily in the Consolidated Revenue Fund of Canada on a non-interest basis) to satisfy payment of contingent liabilities relating to the sale of the corporation's investments in de Havilland and Canadair (see Note 5).

5. Investments in non-consolidated subsidiaries

The carrying value of the corporation's investments is as follows:

	Carrying Value December 31, 1985	Equity in Income (Loss)	Dividends Received	Sale of Subsidiary	Carrying Value December 31, 1986
Canadair	224,002	96,858	(57,000)	(263,860)	
de Havilland	80,000			(80,000)	
Eldorado	205,004	(64,358)			140,646
	509,006	32,500	(57,000)	(343,860)	140,646

During the year, the corporation disposed of its investment in de Havilland and Canadair as follows:

(a) On January 31, 1986, the corporation sold its investment in de Havilland to the Boeing Company ("Boeing"). The nominal consideration for the sale was $155,000 of which $90,000 was received in cash on closing. $65,000 of the purchase price is payable in instalments, without interest, over a fifteen year period.

The corporation and the Government of Canada have agreed to indemnify Boeing and de Havilland for certain contingent liabilities and other expenditures which may be incurred by Boeing and de Havilland over a maximum of six years after closing.

These contingent liabilities include the following:

(i) A portion of de Havilland's product liability insurance premiums;

(ii) Certain suppliers' claims which may be asserted against de Havilland for production slow-down or termination and potential claims against de Havilland pursuant to product financing agreements up to a maximum of $60,000.

(iii) Claims related to possible losses caused by health hazards to workers at the de Havilland factory.

Due to the discounting of the $65,000 portion of the purchase consideration and to the estimates of those indemnifications and contingencies which could be reasonably determined, the net realizable value of the corporation's investment in de Havilland at the time of sale was recorded as $80,000. As some of the potential liabilities became quantifiable during the year, the corporation has provided an additional $15,000 in this regard.

No further provision for the related indemnity liability has been reflected in these financial statements, as reasonable estimates of the effects of certain future events and conditions cannot be made at this time. Such amounts will be recognized as appropriate in future fiscal periods when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to the indemnities.

(b) On December 23, 1986, the corporation sold its investment in Canadair Limited to Bombardier Canadair Inc. ("Bombardier"). The nominal consideration for the sale was $120,000 in cash at closing and receipt of 1,000,000 Class A and 500,000 Class B shares of Bombardier having a stated value of $150,000. The redemption value of these shares is expected to be reduced through actions by Bombardier and Canadair as specified in the agreement. In addition, Canadair has agreed to pay royalties to the corporation on future sales of Challenger Aircraft and on Canadair's contract to service CF18 aircraft for the Department of National Defence.

For purposes of the sale, the value of the consideration was determined to be as follows:

Proceeds		
Cash	120,000	
Bombardier preferred shares	10,000	
Canadair technology rights and royalties	20,000	
		150,000
Costs of disposal and provision for contingent liabilities		9,000
		141,000
Carrying value of investment in Canadair		263,860
Loss on sale		122,860

Prior to the sale, Canadair declared and paid the corporation a dividend of $57,000 consisting of $48,600 in interest bearing notes and the balance in cash.

(c) As at December 31, 1986, the Government of Canada provides authorities and guarantees for the borrowing of Eldorado of $600,000 of which $584,248 is being utilized at December 31, 1986.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

6. Portfolio investments

	Carrying Value December 31, 1985	Reallocation on Reorganization	Reduction in Carrying Value	Carrying Value December 31, 1986
Varity		26,348		26,348
Massey Combines		100,001	(100,000)	1
Massey-Ferguson	126,349	(126,349)		
	126,349		(100,000)	26,349

During 1986, Massey-Ferguson was reorganized on a basis agreed between its lenders and shareholders. As a result of this reorganization, CDIC now holds securities in Varity which, in aggregate, have been valued at $26,348. In addition, the corporation holds preferred shares in Massey Combines as well as an option to purchase 10% of the common shares of that company for a nominal amount. The balance of the corporation's original investment of $126,349 in Massey-Ferguson has been attributed to the Massey Combines securities in the amount of $100,001. The corporation believes that this cost of its investment in Massey Combines significantly exceeds the value of that investment; accordingly, the carrying value of that investment has been written down to $1.

7. Net operating expenses of CDIC

	1986	1985
Service fees from subsidiaries	1,704	3,084
Interest earned on short-term investments	308	418
Other income	79	
	2,091	3,502
Corporate and divestiture expenses	4,483	7,033
	(2,392)	(3,531)
Recovery of divestiture expenses incurred in prior year	1,225	
Net operating expenses	(1,167)	(3,531)

Divestiture expenses include costs of disposing of Teleglobe Canada which are recoverable at the time of sale.

8. Income tax

As at December 31, 1986, Cartierville Financial has tax losses of $258,000 available to reduce taxable income expiring as follows:

1990	166,000
1991	92,000
	258,000

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX

ELDORADO NUCLEAR LIMITED

AUDITORS' REPORT

TO THE SHAREHOLDER

We have examined the statement of consolidated financial position of Eldorado Nuclear Limited as at December 31, 1986 and the statements of consolidated earnings and retained earnings (deficit) and changes in consolidated financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, and the charters and by-laws of the corporation.

Clarkson Gordon
Chartered Accountants

Ottawa, Canada
February 2, 1987

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
AS AT DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Current assets		
Cash and short-term investments	6,903	40,480
Accounts receivable	20,180	12,855
Income taxes receivable	7,062	6,435
Inventories	70,386	55,284
Supplies and prepaid expenses	13,233	11,872
	117,764	126,926
Current liabilities		
Bank loans and short-term debt	82,007	106
Accounts payable and other liabilities	59,868	64,526
Long-term debt due within one year	1,745	79,968
	143,620	144,600
Working capital (deficiency)	(25,856)	(17,674)
Non-current assets		
Property and equipment	766,089	798,428
Deferred charges	39,285	28,597
Inventory committed under long-term contracts	29,306	29,306
Other assets	2,962	3,349
	837,642	859,680
Capital employed	811,786	842,006
Represented by		
Long-term debt	547,206	513,471
Advances under long-term contracts	52,490	52,490
Other liabilities	2,510	3,510
Provision for reclamation	25,434	24,031
Minority shareholding in a subsidiary	43,500	43,500
	671,140	637,002
Shareholder's equity		
Share capital	296,586	296,586
Deficit	(155,940)	(91,582)
	140,646	205,004
Total financing of capital	811,786	842,006

(See accompanying notes).

Approved by the Board of Directors:

MARCEL BÉLANGER
Director

N. M. EDIGER
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

STATEMENT OF CONSOLIDATED EARNINGS
AND RETAINED EARNINGS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenue		
Sales of products and services	202,266	219,792
Expenses		
Cost of products and services sold	141,614	139,781
Exploration	5,470	5,796
Research and development	3,197	2,649
Administration	8,318	7,520
Total operating expenses	158,599	155,746
Earnings from operations	43,667	64,046
Financing expense		
Interest expense	75,133	73,126
Amortization of Foreign Exchange	24,053	14,110
Other expense	1,305	5,234
Loss before other items	(56,824)	(28,424)
Mineral royalties	3,184	24,430
Distribution to preferred shareholders of a subsidiary	4,350	4,350
Net loss	(64,358)	(57,204)
Deficit—Beginning of year	(91,582)	(34,378)
Deficit—End of year	(155,940)	(91,582)

(See accompanying notes).

STATEMENT OF CHANGES IN CONSOLIDATED
FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Cash received from sales	196,518	252,674
Advances under long-term contracts		52,490
	196,518	305,164
Cash applied to		
Production costs	109,547	91,754
R&D, exploration and administration	16,465	15,357
Mineral royalties	9,230	23,374
	135,242	130,485
Cash provided from operations	61,276	174,679
Investing activities		
Cash received from		
Prior year income tax overpayment		8,312
Sale of property and equipment	7,035	782
	7,035	9,094
Cash applied to		
Additions to property and equipment	14,357	38,962
Additions to deferred charges	13,906	6,754
Mine shutdown	764	3,555
	29,027	49,271
Cash required for investment	21,992	40,177
Net cash provided from operations and investment	39,284	134,502
Financing activities		
Cash received from		
Income on investments	595	1,025
	595	1,025
Cash applied to		
Repayment of long-term debt	69,475	
Net change in short-term debt	(81,901)	19,894
Interest on debt	81,532	76,582
Distribution to preferred shareholders of a subsidiary	4,350	4,350
	73,456	100,826
Cash required for financing	72,861	99,801
Increase (decrease) during the year	(33,577)	34,701
Cash and short-term investments at beginning of year	40,480	5,779
Cash and short-term investments at end of year	6,903	40,480

(See accompanying notes).

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1986

1. Eldorado Nuclear Limited

Eldorado Nuclear Limited is incorporated under the Canada Business Corporations Act, is subject to the Financial Administration Act, the Government Companies Operations Act, is an agent of Her Majesty in Right of Canada, and is wholly-owned by Canada Development Investment Corporation. The Company is primarily engaged in the mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries.

2. Accounting policies

A statement of significant accounting policies of the Company is provided elsewhere herein.

3. Other expense (income)

	1986	1985
	(in thousands of dollars)	
Write-down of fixed assets	992	6,226
Interest on investments	(706)	(459)
Other	1,019	(533)
Total	1,305	5,234

4. Income taxes and mineral royalties

The provisions for income taxes and mineral royalties are as follows:

	1986	1985
	(in thousands of dollars)	
Income taxes		
Mineral royalties	3,184	24,430
Total	3,184	24,430

As at December 31, 1986, the company had tax loss carry-forwards, investment tax credits and timing differences aggregating approximately $143.2 million for which no accounting benefit has been recognized. This amount includes $95.4 million which will expire at various dates up to 1993. The balance can be carried forward indefinitely.

5. Inventories

	1986	1985
	(in thousands of dollars)	
Eldorado uranium	59,367	43,793
Customer conversion	9,681	9,850
Specialty metals	1,338	1,641
Total	70,386	55,284

6. Property and equipment

	1986	1985
	(in thousands of dollars)	
Mining		
Plant and equipment	181,175	177,298
Development costs	49,096	47,612
Property acquisitions	156,460	156,460
Collins Bay Project	100,878	97,406
Fuel services		
Plant and equipment	411,539	407,584
Other	12,907	15,050
Total property and equipment	912,055	901,410
Less: accumulated depreciation and amortization	145,966	102,982
Net property and equipment	766,089	798,428
Depreciation and amortization for year	44,407	30,714

7. Joint venture activities

Through a wholly-owned subsidiary, the Company is a one-sixth partner in a joint venture mining operation at Key Lake, Saskatchewan. In accordance with the joint venture agreement, Eldorado is obligated to meet its proportionate share of the commitments of the joint venture. Other than normal operating expenditures, the Company has no outstanding commitments as at December 31, 1986.

The following amounts are included in the financial statements and represent the Company's proportionate share of the assets, liabilities, and operating expenses of the Key Lake mining joint venture:

	1986	1985
	(in thousands of dollars)	
Assets	94,567	93,582
Liabilities	1,330	1,814
Net assets	93,237	91,768
Expenses	8,785	8,469

8. Deferred charges

	1986	1985
	(in thousands of dollars)	
Production	36,815	25,431
Financing costs	2,470	3,166
Total	39,285	28,597
Amortization for year	3,218	2,354

9. Long-term sales contracts

Eldorado has entered into contracts which provide for the future sale and delivery of uranium in the form of UF_6 at flexible dates over the eight-year term of the contracts. The Company has sold the future sales contract to interested financing parties and has retained certain rights and obligations under all of the contracts. On the statement of Consolidated Financial Position, the Company has segregated the inventory committed and the advances under long-term contracts which will be satisfied out of the future revenues associated with these transactions. The impact on the Statement of Consolidated Earnings and Retained Earnings (deficit) will be recognized as deliveries take place.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX—*Continued*

ELDORADO NUCLEAR LIMITED—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1986—*Continued*

10. Minority shareholding in a subsidiary

In April, 1984, an Eldorado subsidiary acquired all rights to and benefits in the 1970 New Continental Oil royalty agreement from Aberford Resources Limited, Hacienda Oil & Minerals Ltd. and Oak Ridge Oil & Minerals Ltd. This agreement gives the holder a 20 percent interest in the profits derived from certain Athabasca basin properties held by Eldorado's Eldor Mines division and others. Consideration was $5.0 million cash and $43.5 million redeemable preferred shares of the subsidiary company. The shares, with certain restrictions, can be redeemed between 1988 and 1994 and bear a 10 percent annual dividend.

As security, the three companies hold a lien on certain uranium inventory. At Eldorado's option, the lien can also be satisfied from time to time by a letter of credit. The lien covers the value of the subsidiary's redeemable preferred shares plus future dividends, through to the shares' designated redemption dates. Each payment of a dividend or redemption of a share reduces the lien by a similar amount. At December 31, 1986, the Company had inventories in excess of the prescribed value.

For consideration of $5.0 million cash, Aberford Resources Limited, Hacienda Oil & Minerals Ltd. and Oak Ridge Oil & Minerals Ltd. acquired from Eldorado a royalty interest on uranium sales from certain designated properties. The royalty covers that portion of such sales in excess of a designated base selling price which is adjusted annually for inflation. During 1986, sales did not exceed the adjusted base price and no royalty was paid.

11. Long-term debt

	1986	1985
	(in thousands of dollars)	
Notes due 1986, at 13.25% ($50 million U.S.)		69,875
Loan due 1987-1992, at 8.8% (2 billion Japanese yen)	17,450	13,968
Notes due 1988, at 9.19% (10.108 billion Japanese yen)	88,192	70,594
Debenture due 1988, at 11%	30,000	30,000
Euro notes, due 1989 to be set semi-annually at LIBOR rate ($100 million U.S.)	138,050	139,750
Notes due 1990 at 9.125%	10,093	10,093
Loan due 1991, at 7% (100 million Swiss francs)	85,590	67,860
Loan due 1992, at 14.25% ($44.7 million U.S.)	61,641	62,399
Notes due 1992, at 14.5% ($100 million U.S.)	138,050	139,750
Bonds due 1992, at 8.5% (10 billion Japanese yen), with 10% of principal due in each of years 1988-1991	87,250	69,840
Sub-total	656,316	674,129
Less: current portion of long-term debt listed above	1,745	79,968
deferred loss on foreign exchange	107,365	80,690
Total	547,206	513,471

The long-term debt payments due in each of the next five years are as follows: 1987—$1.7 million; 1988—$130.4 million; 1989—$150.3 million; 1990—$22.3 million; 1991—$97.8 million. Interest on long-term debt amounted to $71.1 million (1985—$74.9 million).

12. Share Capital

	1986	1985
Authorized		
Common shares	(Unlimited number no par value)	
Preference shares	1,600,000	1,600,000
	(in thousands of dollars)	
Issued and fully paid		
Common—3,852,880 shares (1985—3,852,880)	201,586	201,586
Preference—800,000 shares (1985—800,000)	95,000	95,000
Total	296,586	296,586

Each preference share is redeemable at the option of either party at a value of $118.75 per share and carries a non-cumulative dividend of $7.125 per annum.

13. Commitments and contingencies

(a) The Company has defined benefit pension plans covering all of its regular full-time employees.

The pension funds, which are administered by independent trustees, are valued at least every three years by consulting actuaries. Based on the latest actuarial valuations at June 30, 1986 and December 31, 1985, the plans have a surplus of $27.7 million.

(b) In 1986, the government ordered Eldorado to cease its program to site a new waste disposal facility to accommodate the wastes currently at two waste storage sites. Responsibility for selecting a new disposal site now rests with the government. The Company will continue to expense the ongoing maintenance costs of the existing storage facilities. No provision will be made for future disposal costs until a new site is selected and approved, the costs can be reasonably estimated, and the responsibilities for such costs are determined.

(c) To reduce its dependency on oil generated electricity, the Company has entered into a 10 year commitment, with certain qualifications, to buy 50 GWH per year of hydro electric power at 12¢ per KWH, a price which approximates its current cost of oil generated electricity.

(d) In connection with its operations, the Company is the defendant in certain litigation. While the amount of any ultimate liability cannot yet be determined, the Company after discussion with legal counsel, is of the opinion that there will be no material adverse effect on its financial position.

14. Supplementary information

(a) During 1986, the Company paid sales commissions to Marubeni Corporation, Toyomenka Canada Ltd., and Uranerzbergbau-GmbH.

(b) During 1986, the total remuneration paid to the Company's outside directors was $101,792 (1985—$93,709). The Company's officers received remuneration totalling $633,500 (1985—$607,500). One officer is also a director but is not compensated for service as a member of the Board or its committees.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Concluded*

APPENDIX—*Concluded*

ELDORADO NUCLEAR LIMITED—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

(c) A management fee of $242,000 (1985—$286,000) was paid to Canada Development Investment Corporation.

(d) Certain 1985 accounts have been reclassified for comparison purposes.

15. Segmented Information

(a) Industry Segment

The Company is of the opinion that virtually all its sales revenues are in the industry segment identified as the nuclear fuel industry.

(b) Sales

Sales revenues, which are derived primarily from sales to foreign and domestic electric utilities, are as follows:

	1986	1985
	(in thousands of dollars)	
Export Sales	159,414	164,806
Domestic Sales	42,852	54,986
Total Sales	202,266	219,792

STATEMENT OF ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared by management in conformance with Canadian generally accepted accounting principles considered to be appropriate in the circumstances, and have been applied on a basis consistent with that of the preceding year. A summary of significant accounting policies of the Company is presented to assist the reader in interpreting the statements contained herein.

Consolidation

The consolidated financial statements include the accounts of Eldorado Nuclear Limited, its wholly-owned subsidiaries, and the Company's proportionate interest in the accounts of the Key Lake Mining joint venture.

Inventories

Inventories of mine concentrates, refined and converted products are valued at the lower of weighted average cost or net realizable value. Cost for customer-owned products is the cost of the refining and conversion processes only.

Inventories of mine concentrates are initially measured and accounted for in the financial statements when the material is sealed in containers upon completion of the milling process.

Supplies

Operating and general supplies are carried at lower of cost or market.

Property and equipment

Assets are carried at cost. Costs of additions, betterments, and renewals are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings.

Maintenance and repair expenditures are charged to cost of production.

Depreciation and Amortization

Fuel Services and Mining buildings and equipment, mine development and mineral properties are depreciated or amortized according to the unit-of-production method. This method allocates the cost of these assets to each accounting period. For Fuel Services, the amount is equal to the portion of the facilities' total estimated lifetime production produced in that period. For Mining, the amount is equal to the portion of the mine's total recoverable ore reserves recovered during the period.

Mobile mining equipment and other assets, including Research & Development, Exploration, Specialty Metals, and Corporate Assets, are depreciated according to the composite straight-line method based on the estimated useful lives of these assets, which ranges from 3 to 10 years.

Fuel Services and certain mining facility costs associated with capacity additions are deferred until a commercial level of production is achieved. These costs are then amortized over 10 years. Other costs are charged to production as incurred.

Amortization of Financing Costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the debt.

Provision for Reclamation

The estimated costs of decommissioning and reclaiming producing resource properties are accrued and charged to operations according to the unit-of-production method. Actual costs of decommissioning and reclamation are applied to this accrual.

Research and Development and Exploration Costs

Expenditures for applied research and development relative to the products and processes of the Company and expenditures for geological exploration programs are charged against earnings as incurred.

Sales of Products and Services

In accordance with normal industry practices, the Company contracts for future delivery of mine concentrates and conversion services. Sales revenue is recorded in the fiscal year that title passes or, with customer-owned material, when delivery is effected.

Foreign Exchange

Cash and short-term investments, accounts receivable, accounts payable, short-term and long-term debt denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at year-end. Income and expenses are translated at rates in effect at the time of the transaction.

Except for certain U.S. dollar-denominated long-term debt that is hedged against future U.S. dollar revenue, the change in value in Canadian funds over the year of long-term debt denominated in a foreign currency is amortized evenly over the remaining life of the debt. For all other accounts, gains or losses resulting from foreign currency translation are reflected in the statement of consolidated earnings and retained earnings.

SUMMARY PAGE

CANADA HARBOUR PLACE CORPORATION

MANDATE

Administer properties at Canada Place in Vancouver, originally constructed as the Canadian pavilion at Expo 86.

BACKGROUND

The corporation commenced operations in 1982, and constructed the Canada Place facilities and managed the Canada Pavilion at Expo 86. The facilities called Canada Place include a cruise ship terminal for the Vancouver Port Corporation, the Canada Pavilion and a hotel-office complex built for the Tokyu Corporation. Following Expo 86, the Pavilion was converted to a trade and convention centre and leased to the Province of British Columbia for a period of 20 years.

CORPORATION DATA

HEAD OFFICE	Suite 690 999 Canada Place Vancouver, British Columbia V6C 3C1
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1982; by letters patent (no. 132316) under the *Canada Business Corporations Act*.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Thomas G. Rust
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Total Assets	86.0*	145.2	88.3	34.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	80.3	132.7	76.5	28.4
Cash from Canada in the period				
— budgetary	13.6	55.6	48.1	20.9
— non-budgetary	nil	nil	nil	nil

* An amount of $43.7 million relating to construction of the Canada Pavilion at Expo 86 was capitalized in 1984-1985 but was expensed in 1986-87.

CANADA HARBOUR PLACE CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Canada Harbour Place Corporation as at March 31, 1987 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 15, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986	LIABILITIES AND EQUITY OF CANADA	1987	1986
Cash and short-term investments	8,981	29,177			
Accounts receivable	2,993	4,505	Accounts payable	5,726	12,479
Construction in progress (Note 3)	74,052	67,788	Equity of Canada	80,300	132,703
Deferred costs		43,712			
	86,026	145,182		86,026	145,182

Approved by the Board:

JAMES H. GREEN
Director

T. G. RUST
Director

CANADA HARBOUR PLACE CORPORATION—*Continued*

STATEMENT OF OPERATIONS CANADA PAVILION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Expenses (Note 6)	75,219	
Revenues (Note 6)	9,352	
Net cost of operations	65,867	

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Capital stock		
Contributed capital		
Beginning of year	132,703	76,510
Parliamentary appropriations received during the year	13,464	56,193
	146,167	132,703
Net cost of operations—Canada Pavilion	65,867	
Balance at end of year	80,300	132,703

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Cash Provided by (Used for) Operations		
Net cost of operations	(65,867)	
Transfer of net deferred costs to operations	43,712	
Increase (decrease) in accounts payable	(6,753)	728
Decrease (increase) in accounts receivable	1,512	(1,554)
	(27,396)	(826)
Cash Provided by Financing Activities		
Contribution from Canada	13,464	56,193
Parliamentary appropriation receivable		19,200
	13,464	75,393
Cash Invested		
Net addition to construction in progress	6,264	15,555
Net deferred costs		36,062
	6,264	51,617
Increase (decrease) in cash during the year	(20,196)	22,950
Cash and short-term investments		
Beginning of year	29,177	6,227
End of year	8,981	29,177

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and objectives

The Canada Harbour Place Corporation was incorporated on June 9, 1982 under the Canada Business Corporations Act. The Corporation is an agent of Her Majesty pursuant to the Government Companies Operation Act, and is named as an agency Crown corporation in Part I of Schedule C of the Financial Administration Act. The three shares issued and outstanding are all held in right of Canada by the Minister of Transport, the Responsible Minister with whom control of the Corporation lies.

The Corporation is exempt from income taxes.

The objectives of the Corporation are to act as a developer and acquire, administer and dispose of land, and manage real property for the Government of Canada in Vancouver, B.C. For this purpose, it is to design and construct a facility at Canada Place to include a cruise ship terminal and a Canadian host pavilion for Expo 86 suitable to be converted to a trade and convention centre. In addition, the Corporation has the authority to manage and operate the facility at Canada Place, either by itself or with others, and organize, operate and manage the participation of the Government of Canada as exhibitor and host nation for Expo 86.

The total cost of the facility at Canada Place, including the Canada Pavilion for Expo 86 and the cost to convert the Pavilion to a Trade and Convention Centre, is estimated at $227.4 million of which $151.8 million is expected to be contributed by the Government, $22.8 million by the Vancouver Port Corporation in respect of the cruise ship terminal and $52.8 million from other sources.

The Responsible Minister is to recommend to the Governor in Council prior to December 31, 1988 on the continued activities of the Corporation beyond that date.

2. Significant accounting policies

Construction in progress

All expenditures including those for acquisition, design, construction and administration for the permanent structures at Canada Place will be capitalized until the facility is fully developed in July 1987. Interest income is credited to construction in progress. Receipts from the sale of development rights, leaseholds and the Imax Theatre sponsorship are also deducted from the construction costs.

Depreciation will commence in 1987-88 when the facility is fully developed. Depreciation of the facility will be calculated on a straight line basis over a 40 year period.

Canada Pavilion

The expenditures to design, construct and fit-out the Pavilion and to organize, operate and manage the participation of the Government of Canada as exhibitor and host nation for Expo 86 respectively, net of related revenues, were recorded as deferred costs at March 31, 1986.

The expenditures on the Pavilion and its operating and other related expenditures and revenues have been taken into income during 1987 and offset against contributed capital.

Administration

Corporate and construction administration expenses are charged against construction in progress. Administration expenses for the Pavilion are included in Pavilion expenses.

CANADA HARBOUR PLACE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

3. Construction in progress

	Cumulative to March 31, 1986	1987	Cumulative to March 31, 1987
	(in thousands of dollars)		
Construction costs	95,330	612	95,942
Soft costs	15,760	1,615	17,375
Access and site purchase	14,551	209	14,760
Trade and Convention Centre conversion	5,421	6,343	11,764
Total costs	131,062	8,779	139,841
Less receipts (Note 4)	63,274	2,515	65,789
Costs, net of receipts	67,788	6,264	74,052

Soft costs include corporate and construction administration, architects and consultants fees and related management costs.

Title to that part of the bed of Vancouver harbour on which the facility is located was transferred to the Corporation from Vancouver Port Corporation for one dollar and has been so recorded in site purchase costs.

The ownership of the access roads to the facility will be transferred at no cost to the City of Vancouver. The cost of the access roads included in construction in progress is $9.4 million.

4. Receipts

	Cumulative to March 31, 1986	1987	Cumulative to March 31, 1987
	(in thousands of dollars)		
Lease Agreements			
Hotel Air Rights	29,838		29,838
Parking Lot	1,000	1,051	2,051
Development Agreement			
Cruise Ship Terminal	22,807		22,807
Sponsorship Agreement			
Imax Theatre	5,000		5,000
Interest Income	4,629	1,028	5,657
Restaurant		403	403
Other		33	33
	63,274	2,515	65,789

(a) Lease Agreements—Hotel Air Rights and Parking Lot

In 1983, the Corporation entered into 99-year agreements with Tokyu Canada Corporation, for the lease of air rights at Canada Place to Tokyu. The net amount under these leases for air rights and construction costs is $29.8 million. Tokyu will also pay additional rent for its share of the common area and operating costs.

In 1986, the Corporation entered into a 20 year agreement with Citicom Ltd. to operate the parking facilities at Canada Place. Citicom paid $1 million to the Corporation at the time the agreement was signed and made monthly payments totalling $1 million based on varying percentages of gross parking revenues.

(b) Development agreement—Cruise Ship Terminal

The Corporation executed a development agreement with the Vancouver Port Corporation to construct a cruise ship terminal for $22.8 million in the Canada Place project.

(c) Sponsorship agreement—Imax Theatre

The Corporation has entered into an agreement with Canadian National for rights respecting an Imax Theatre at Canada Place. The rights are for the sponsorship of the film "Transitions" and for the theatre to be named the "CN Imax Theatre" for a period of 40 years commencing May 2, 1986.

In return for these rights, CN has paid the Corporation $5 million which has been allocated wholly against construction costs.

5. Commitment—Trade and Convention Centre

During the year, the Government of Canada and the Province of B.C. signed an agreement in which the Province of B.C. will take over and operate the Trade and Convention Centre starting in July 1987.

Under the signed agreement, the Government of Canada agreed to do the following:

- Complete construction and outfit the Trade and Convention Centre at the Corporation's cost which is estimated to be $17.5 million.
- Pay $1 million to the Province of B.C. in July 1987.
- Lease to the Province of B.C., at a nominal consideration of $1, space in the Canada Place project for the Trade and Convention Centre including pre-function areas, meeting rooms and retail space for a term of 20 years with renewal options for three successive similar terms.

6. Operating Expenses and Revenues—Canada Pavilion

Expenses and revenues attributable to the period of operation of the Canada Pavilion at Expo 86 follow:

	Deferred at March 31, 1986	1987	Cumulative to March 31, 1987
	(in thousands of dollars)		
Expenses			
Construction and Exhibitry	31,417	6,325	37,742
Imax Theatre	4,884	530	5,414
General administration	3,877	1,619	5,496
Cultural programs	2,985	5,448	8,433
Public affairs	2,054	2,731	4,785
Operations	1,700	7,295	8,995
Building Management		3,222	3,222
Commissioner General	458	1,615	2,073
Royalty Fees—Expo'86		830	830
Exhibitry Disposal Proceeds	(42)	(1,729)	(1,771)
	47,333	27,886	75,219
Revenues			
Sponsorship	3,576	774	4,350
Food Fair and Retail	45	4,957	5,002
	3,621	5,731	9,352

7. Contractual obligations

At March 31, 1987, the construction and related costs to complete the project including conversion costs are estimated at $7.3 million of which approximately $3.7 million has already been committed.

8. Long-term lease commitment

The Corporation has entered into a long-term lease agreement for the Imax projection system. The future minimum lease payments by fiscal year are as follows:

	(in thousands of dollars)
1988	740
1989	162
1990	162
1991	162
1992	162

CANADA HARBOUR PLACE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

9. Retirement plan

Because of the term nature of the project, the Corporation has agreed to make annual payments for certain employees to retirement plans of their choice and to provide for a retiring allowance to senior officers. These benefits are equivalent to 8½% of the annual salary for each of these employees and officers.

10. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations.

The Corporation is dependent on the Government of Canada for working capital and to finance expenditures.

All significant related party transactions are disclosed in Notes 3 and 4. Certain components of the Canada Pavilion and increased federal activities in support of Expo 86 that have been provided directly by departments, agencies and Crown corporations are not reflected in these financial statements. The Corporation also enters into transactions with departments, agencies and Crown corporations in the normal course of business.

SUMMARY PAGE

CANADA LANDS COMPANY LIMITED

MANDATE

The Canada Lands Company Limited has the mandate to hold certain leases for a property in London, England and two properties on Indian reserves in Canada. It is also the shareholder in three subsidiary corporations.

BACKGROUND

Formerly the Public Works Lands Company, the corporation is not active; it transacts no business. It has three subsidiaries, Canada Lands Company (Mirabel) Limited, Canada Lands Company (Le Vieux-Port de Montréal) Limited and Canada Lands Company (Vieux-Port de Québec) Inc.

CORPORATION DATA

HEAD OFFICE	Sir Charles Tupper Building Confederation Heights Riverside Drive Ottawa, Ontario K1A 0M2
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1956; by letters patent; reorganized under the *Canada Corporations Act*, September 19, 1977. Certificate of Continuance under the *Canada Business Corporations Act* July 7, 1981.
CHIEF EXECUTIVE OFFICER	Robert Giroux
AUDITOR	The Auditor General of Canada

FINANCIAL INFORMATION.

The corporation's financial year ends March 31. No value is assigned in its accounts to any of its assets; the accounts of its subsidiaries are reported separately and are not consolidated with those of this corporation since it is not likely to benefit from any increase in the equity of the subsidiaries.

CANADA LANDS COMPANY LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined, in accordance with generally accepted auditing standards, the balance sheet of Canada Lands Company Limited as at March 31, 1987. In my opinion, it presents fairly the financial position of the Corporation at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the balance sheet have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the articles and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 19, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986	SHAREHOLDER EQUITY	1987	1986
Investments (Notes 2(a), 2(b) and 2(c))			Capital stock (Note 2(d))		

Approved by the Board:

ROBERT J. GIROUX
President

CANADA LANDS COMPANY LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENT
MARCH 31, 1987

1. Authority and activities

The Canada Lands Company Limited, an agent corporation, originally named Public Works Lands Company Limited, was incorporated under the Companies Act on March 7, 1956. It was added to Schedule C to the Financial Administration Act on May 17, 1979 and listed as a parent Crown corporation on June 29, 1984 in Schedule C, Part I of the Financial Administration Act.

The Corporation has, by virtue of its letters patent of incorporation, the power to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or an interest therein. However, it has been used only to hold, in trust for other departments, certain leasehold interests in one property in London, England, and two properties on Indian reserves in Canada. Funding for these leases are borne by other departments.

2. Significant accounting policies

(a) Investments in subsidiaries

The Corporation wholly-owns the following three subsidiary corporations:
Canada Lands Company (Mirabel) Limited
Canada Lands Company (Vieux-Port de Québec) inc.
Canada Lands Company (Le Vieux-Port de Montréal) Limited.
The shares have been acquired in consideration of services rendered.

(b) Other investments

The Corporation holds two out of the three issued shares of the Canada Museums Construction Corporation Inc. The third share is held by the Minister of Public Works; however, control of this corporation lies with the Minister of Public Works through a shareholders' agreement.

(c) Exclusion of subsidiaries from consolidation

The financial statements of the subsidiaries are excluded from consolidation because increases in their equity are not likely to accrue to the parent.
On January 22, 1987, the Governor General in Council declared that certain sections of the Financial Administration Act apply to the subsidiaries as if each of these corporations were a parent Crown corporation set out in Schedule C, Part I of the Act. Pursuant to this Order, these subsidiaries are required to submit their corporate plans, operating and capital budgets, summaries of the plans and budgets and annual reports in accordance with the Act.

(d) Capital stock

The Corporation is authorized to issue three shares which shall not be transferred to any person other than a person approved by the Minister of Public Works. The authorized shares have been issued in consideration of services rendered and are held in trust for Her Majesty in right of Canada by the Minister of Public Works.

3. Financial statement

The Corporation has not been involved in any financial transactions. As a result, the balance sheet has nil balances and no other financial statement is presented.

CANADA LANDS COMPANY LIMITED—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined, in accordance with generally accepted auditing standards, the balance sheets of Canada Lands Company Limited as at March 31, 1982 to 1986. In my opinion, they present fairly the financial position of the Corporation at those dates in accordance with generally accepted accounting principles applied consistently.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the balance sheets have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the articles and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
December 16, 1986

BALANCE SHEETS AS AT MARCH 31

ASSETS	1986	1985	1984	1983	1982	SHAREHOLDER EQUITY	1986	1985	1984	1983	1982
	$	$	$	$	$		$	$	$	$	$
Investments (Notes 2(a) and 2(b))						Capital stock (Note 2(d))					

Approved by the Board:

ROBERT J. GIROUX
President

CANADA LANDS COMPANY LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENT
MARCH 31, 1986

1. Authority and activities

The Canada Lands Company Limited, an agent corporation, originally named Public Works Lands Company Limited, was incorporated under the Companies Act on March 7, 1956. It was added to Schedule C of the Financial Administration Act on May 17, 1979 and listed as a parent Crown corporation on June 29, 1984 in Schedule C, Part I of the Financial Administration Act.

The Corporation has, by virtue of its letters patent of incorporation, the power to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or an interest therein. However, it has been used only to hold, in trust for other departments, certain leasehold interests in one property in London, England, and two properties on Indian reserves in Canada. Funding for these leases are borne by other departments.

2. Significant accounting policies

(a) Investments in subsidiaries

The Corporation wholly-owns the following three subsidiary corporations:

Canada Lands Company (Mirabel) Limited

Canada Lands Company (Vieux-Port de Québec) inc.

Canada Lands Company (Le Vieux-Port de Montréal) Limited.

The shares have been acquired in consideration of services rendered.

(b) Other investments

The Corporation holds two out of the three issued shares of the Canada Museums Construction Corporation Inc. The third share is held by the Minister of Public Works; however, control of this corporation lies with the Minister of Public Works through a shareholders' agreement.

For the years ended March 31, 1982 to 1984, the Corporation held two out of the three issued shares of Canada Harbour Place Corporation. However, control of this corporation lay with the Minister of State for Social Development. On August 31, 1984, these two shares were transferred to the Minister of Transport.

(c) Exclusion of subsidiaries from consolidation

The financial statements of the subsidiaries are excluded from consolidation because increases in their equity are not likely to accrue to the parent.

(d) Capital stock

The Corporation is authorized to issue three shares which shall not be transferred to any person other than a person approved by the Minister of Public Works. The authorized shares have been issued in consideration of services rendered and are held in trust for Her Majesty in right of Canada by the Minister of Public Works.

3. Financial statement

The Corporation has not been involved in any financial transactions. As a result, the balance sheets have nil balances and no other financial statement is presented.

SUMMARY PAGE

CANADA LANDS COMPANY (MIRABEL) LIMITED

MANDATE

Administer, pending disposition, and sell on behalf of the Crown, properties peripheral to the airport called Montreal North.

BACKGROUND

Since July 1982, the corporation has managed the lands which the Crown had acquired for the international airport at Mirabel but which were not required for the functioning of the airport. A program for the sale of all those properties has been developed and is being implemented by the corporation.

CORPORATION DATA

HEAD OFFICE	9850 Belle Rivière P.O. Box 180 Mirabel, Quebec J0N 1S0
STATUS	— Not an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited; it has been directed by Order in Council (PC 1987-86) to report its affairs as if it is a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act*.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Pierre Hardy
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	5.4	3.2	5.0	4.8
Obligations to the private sector	nil	1.2	0.1	0.3
Obligations to Canada	nil	1.3	4.3	3.8
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary, net	6.8	2.4	5.2	2.3
— non-budgetary	nil	nil	nil	nil

CANADA LANDS COMPANY (MIRABEL) LIMITED

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1987
WERE NOT AVAILABLE AT DATE OF PRINTING

SUMMARY PAGE

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED

MANDATE

Promote the development of the lands of Le Vieux-Port de Montréal and develop them; administer, manage and maintain Crown property there.

BACKGROUND

Since February 1982, the corporation has managed the Crown lands at Le Vieux-Port, including lands transferred to the Crown in 1983 from Canada Ports Corporation. Planning and consultation with the public and with the other levels of government have resulted in plans for major developments on the lands. Those plans are at present a significant issue for the various governments.

CORPORATION DATA

HEAD OFFICE	333 rue de la Commune ouest Montreal, Quebec H2Y 2E2
STATUS	— Not an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited; it has been directed by Order in Council (PC 1987-86) to report its affairs as if it is a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Roger Beaulieu
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Total Assets	0.6	1.9	5.7	1.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.1	nil	nil	nil
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary	3.3	5.9	31.6	12.6
— non-budgetary	nil	nil	nil	nil

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Le Vieux-Port de Montréal) Limited as at March 31, 1987 and the statements of transactions and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in right of Canada represented by the Minister of Public Works.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 28, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986	LIABILITIES	1987	1986
	$	$		$	$
Cash and temporary investments	382,388	1,544,657	Accounts payable	408,912	1,607,019
Accounts receivable	101,741	44,000	Due to Minister of Public Works (Note 4)	215,766	285,505
Due from Receiver General for Canada (Note 3)	124,748	288,795		624,678	1,892,524
Prepaid expenses	15,801	15,072	SHAREHOLDER'S EQUITY		
			Capital stock (Note 5)		
	624,678	1,892,524		624,678	1,892,524

Approved by the Board:

ROGER BEAULIEU
Director

BENOÎT LEMAY
Director

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Expenditures		
Operating		
Maintenance of property	853,271	737,856
Permanent personnel	629,199	765,241
Administration	418,904	393,049
Communications and animation	388,142	359,156
Professional services	320,547	264,524
Bad debt		130,223
	2,610,063	2,650,049
Capital	1,139,026	4,404,754
Total of expenses	3,749,089	7,054,803
Proceeds from other than the direct use of fixed assets		
Concessions	340,179	74,957
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	61,071	310,524
Other	1,100	279
	402,350	385,760
Net expenditures to be funded (Note 4)	3,346,739	6,669,043
Cumulative net expenditures since November 26, 1981	60,581,634	57,234,895
Proceeds from the direct use of fixed assets		
Rentals to be remitted (Note 3)	184,077	109,142
Cumulative direct proceeds since November 26, 1981	612,238	428,161
Excess of net expenditures over direct proceeds		
For the year	3,162,662	6,559,901
Cumulative since November 26, 1981	59,969,396	56,806,734

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Transactions carried out as agent and on behalf of the Minister of Public Works		
Operating expenses	2,610,063	2,650,049
Proceeds from other than the direct use of fixed assets	(402,350)	(385,760)
Proceeds from the direct use of fixed assets	(184,077)	(109,142)
Remittances to the Consolidated Revenue Fund	20,030	113,594
	2,043,666	2,268,741
Increase (decrease) in accounts receivable	57,741	(63,406)
Increase in prepaid expenses	729	6,854
Decrease in accounts payable	1,198,107	4,103,328
	3,300,243	6,315,517
Investing activities		
Capital expenses carried out as agent and on behalf of the Minister of Public Works	1,139,026	4,404,754
Financing activities		
Parliamentary appropriation	(3,277,000)	(8,405,968)
Cash and temporary investments		
Decrease for the year	(1,162,269)	(2,314,303)
Balance at beginning of the year	1,544,657	3,858,960
Balance at end of the year	382,388	1,544,657

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1987

1. Authority and activities

Canada Lands Company (Le Vieux-Port de Montréal) Limited was incorporated on November 26, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for developing and for promoting the development of the lands of Le Vieux-Port de Montréal, and for administering, managing and maintaining the property of Her Majesty located therein. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

2. Significant accounting policies

(a) Financial statement presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rental revenues, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1987—*Concluded*

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation. They also include costs of demolishing structures.

(c) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under the salary administration policy of the Corporation. The cost of these benefits is recorded in the year in which they are earned by the employees. The estimated liability resulting from this policy is included in accounts payable.

(d) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans. All contributions are paid by the employees, the Corporation acting solely as an agent without incurring any liability.

3. Due from Receiver General for Canada

	1987	1986
	$	$
Balance receivable at beginning of the year	288,795	284,343
Direct proceeds	184,077	109,142
	104,718	175,201
Remittances to the Consolidated Revenue Fund	20,030	113,594
Balance receivable at end of the year	124,748	288,795

4. Due to Minister of Public Works

	1987	1986
	$	$
Balance payable (receivable) at beginning of the year	285,505	(1,451,420)
Net expenditures	(3,346,739)	(6,669,043)
	(3,061,234)	(8,120,463)
Less:		
funds drawn from Department of Public Works for Canada Lands Company (Le Vieux-Port de Montréal) Limited		
Vote 70 in 1985		2,512,000
Vote 45 in 1986		6,029,350
Vote 40 in 1987	3,277,000	
reimbursements		(135,382)
	3,277,000	8,405,968
Balance payable at end of the year	215,766	285,505

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

SUMMARY PAGE

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

MANDATE

Implement a general development plan for certain lands of the Vieux-Port de Québec; administer, manage, promote and operate those lands and their developments.

BACKGROUND

Since August 1, 1981, the corporation has developed and managed the Crown lands of the Vieux-Port; for two years, ending February 27, 1986, it held, managed and directed a further parcel of Vieux-Port land and the improvements on it.

CORPORATION DATA

HEAD OFFICE	112 Dalhousie Street P.O. Box 95, Station B Quebec City, Quebec G1K 7A1
STATUS	— Not an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited; it has been directed by Order in Council (PC 1987-86) to report its affairs as if it is a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Robert Labbé
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	1.8	2.0*	7.3	14.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.9	0.4	0.4	nil
Equity of Canada	0.2	0.2	3.8	nil
Cash from Canada in the period				
— budgetary	5.0	5.5	27.0	32.5
— non-budgetary	nil	nil	nil	nil

* Lands and improvements returned to Canada in the period had been recorded in the corporation's accounts at a value of $3.6 million.

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Vieux-Port de Québec) inc. as at March 31, 1987 and the statements of operations and retained earnings, contributed surplus, transactions and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, and the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, C.A.
Deputy Auditor general
for the Auditor General of Canada

Ottawa, Canada
June 26, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Cash and term deposit	924,217	1,079,467
Accounts receivable (Note 3)	862,537	784,858
Due from Receiver General for Canada (Note 4)		120,465
	1,786,754	1,984,790

LIABILITIES	1987	1986
	$	$
Accounts payable	643,864	1,276,220
Due to Receiver General for Canada (Note 4)	657,623	
Due to Minister of Public Works (Note 5)	281,857	505,160
	1,583,344	1,781,380
SHAREHOLDER'S EQUITY		
Capital stock (Note 6)		
Contributed surplus	178,250	178,250
Retained earnings	25,160	25,160
	1,786,754	1,984,790

Approved by the Board:

ROBERT LABBÉ
Director

COLETTE SAVARD
Director

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Operating		
Administration, finance and property	3,246,178	3,580,516
Public affairs and animation	1,170,751	1,248,021
Management's office	293,641	340,981
	4,710,570	5,169,518
Capital	704,453	616,819
Total	5,415,023	5,786,337
Proceeds from other than the direct use of fixed assets		
Animation	302,612	
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	88,120	160,942
Other proceeds	3,373	9,049
	394,105	169,991
Net expenditures to be funded (Note 5)	5,020,918	5,616,346
Cumulative net expenditures since April 9, 1981	99,772,748	94,751,830
Proceeds from the direct use of fixed assets Rentals to be remitted (Note 4)	778,088	713,788
Cumulative direct proceeds since April 9, 1981	2,512,927	1,734,839
Excess of net expenditures over direct proceeds For the year	4,242,830	4,902,558
Cumulative since April 9, 1981	97,259,821	93,016,991

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1987 (NOTE 1)

	1987	1986
	$	$ (11 months)
Rental revenues		392,330
Expenditures		382,087
Net income for the year		10,243
Retained earnings at beginning of the year	25,160	14,917
Retained earnings at end of the year	25,160	25,160

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at beginning of the year	178,250	3,790,000
Fixed assets retroceded to Canada		3,611,750
Balance at end of the year	178,250	178,250

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Transactions carried out as agent and on behalf of the Minister of Public Works		
Operating expenditures	4,710,570	5,169,518
Proceeds from the direct use of fixed assets	(778,088)	(713,788)
Proceeds from other than the direct use of fixed assets	(394,105)	(169,991)
Remittances to the Consolidated Revenue Fund		766,713
Results for the year		
Net income of the year		(10,243)
Non-cash item		
Depreciation		(81,700)
	3,538,377	4,960,509
Increase (decrease) in accounts receivable	77,679	(300,967)
Decrease in accounts payable	632,356	1,719,602
	4,248,412	6,379,144
Investing activities		
Capital expenses carried out as agent and on behalf of the Minister of Public Works	704,453	616,819
Financing activities		
Parliamentary appropriation	(4,797,615)	(5,660,970)
Cash and term deposit		
Decrease for the year	155,250	1,334,993
Balance at beginning of the year	1,079,467	2,414,460
Balance at end of the year	924,217	1,079,467

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and activities

Canada Lands Company (Vieux-Port de Québec) inc. was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective August 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for the implementation of a general development plan for the lands of the Vieux-Port de Québec under its jurisdiction and for administering, managing, promoting and operating such lands and their developments. The Corporation fulfils this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

From February 9, 1984 to February 27, 1986, the Corporation was responsible for its own account for the management, charge and direction of a parcel of land together with the improvements thereon which had been transferred to it, subject to certain limiting conditions, by order of the Governor General in Council on February 9, 1984. This property was retroceded on February 27, 1986.

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

2. Significant accounting policies

(a) Financial statements presentation

The Statement of Operations presents the transactions carried out by the Corporation for the management, charge and direction of the assets held from February 9, 1984 to February 27, 1986 for the benefit of Her Majesty.

The Statement of Transactions presents transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered or owned by the Corporation. They also include costs of acquiring and demolishing structures.

(c) Fixed assets and depreciation

Fixed assets transferred free of charge from Canada on February 9, 1984 were recorded at their current value at the date of transfer, with the offset being credited to contributed surplus. Depreciation was calculated under the straight line method using a rate of 2.5% per annum based on the estimated useful life for the main structure of the building.

These were retroceded free of charge to Canada on February 27, 1986. The retrocession of these fixed assets was recorded at their net book value.

3. Accounts receivable

The accounts receivable include the following amounts:

	1987	1986
	$	$
Public services organization	471,929	468,368
Canada Ports Corporation	175,000	175,000
Others	215,608	141,490
	862,537	784,858

The amount receivable from the public services organization is for specific work carried out by the Corporation during the year 1982-83. The related cost is recoverable upon the signing of a protocol by the Corporation, the Canada Ports Corporation and the organization. The protocol, not yet signed, provides for the transfer of certain privileges from the Corporation and the Canada Ports Corporation. The work is completed for all practical purposes. The Corporation has not yet decided to transfer the privileges requested by the organization. It is possible that the Corporation may not recover the related cost and would have to account for it as a capital expenditure.

The amount receivable from the Canada Ports Corporation derives from a protocol providing for the reimbursement to the Corporation of expenditures it incurred for work carried out inside the strip of land upon which the Canada Ports Corporation has operational jurisdiction. This protocol provides that the reimbursement will be made out of a global amount approved by the Treasury Board to the Canada Ports Corporation, if there are funds remaining available. As at March 31, 1987, the Corporation had claimed for the reimbursement of $650,000 for expenditures incurred mainly during the year 1982-83, of which $475,000 had been received to that date. Not being able to determine the funds remaining available to the Canada Ports Corporation, the Corporation cannot establish the additional amount it might expect to receive, or any amount up to the $475,000 already received it might have to refund. Any difference established at the time of the final settlement of this transaction will be accounted for as a capital expenditure.

4. Due to (from) Receiver General for Canada

	1987	1986
	$	$
Balance at beginning of the year	(120,465)	(67,540)
Direct proceeds	778,088	713,788
	657,623	646,248
Remittances to the Consolidated Revenue Fund		(766,713)
Balance at end of the year	657,623	(120,465)

5. Due to Minister of Public Works

	1987	1986
	$	$
Balance at beginning of the year	505,160	460,536
Net expenditures	5,020,918	5,616,346
	4,515,758	5,155,810
Less: funds drawn from Department of Public Works vote for Canada Lands Company (Vieux-Port de Québec) inc.		
Vote 40 in 1985-86	283,615	5,660,970
Vote 35 in 1986-87	4,514,000	
	4,797,615	5,660,970
Balance at end of the year	281,857	505,160

6. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada and which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

7. Contingencies

The Corporation and the corporation Québec 1534-1984 signed a protocol of general understanding determining the rights and obligations of each party for the staging in 1984 of a festive event and for the use of the site and of the equipment under the jurisdiction of the Corporation. Under the terms of the agreement, the Corporation has not granted the right to use the totality of the site, reserving for itself some premises that it might rent for commercial purposes. Leases were signed but, because of poor attendance, several were modified, cancelled or abandoned. The Corporation has received claims arising from those leases and from other activities, for a total in excess of $3.3 million, and more may be received. Management is of the opinion that these claims will not result in any significant financial responsibility for the Corporation.

8. Disposal of lands

The Corporation has embarked in a program under which it should dispose in the short term of the lands under its responsibility to public sector organizations or to private interests.

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Vieux-Port de Québec) inc. as at March 31, 1986 and the statements of operations and retained earnings, contributed surplus, and of transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, and the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, except that the Corporation did not maintain proper books of account and records and financial control and information systems from which it may prepare its financial statements. To prepare the financial statements as at March 31, 1986, it was necessary, as compensatory procedures, to analyse certain transactions which had not been reflected fairly in the accounts and those which were recorded in the subsequent year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
December 24, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Cash	1,079,467	2,414,460
Accounts receivable (Note 3)	784,858	1,085,825
Due from Receiver General for Canada (Note 4)	120,465	67,540
Fixed assets		3,693,450
	1,984,790	7,261,275

LIABILITIES	1986	1985
	$	$
Accounts payable (Note 5)	1,276,220	2,995,822
Due to Minister of Public Works (Note 6)	505,160	460,536
	1,781,380	3,456,358
SHAREHOLDER'S EQUITY		
Capital stock (Note 7)		
Contributed surplus	178,250	3,790,000
Retained earnings	25,160	14,917
	1,984,790	7,261,275

Approved by the Board:

ROBERT LABBÉ
Director

COLETTE SAVARD
Director

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Continued*

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1986 (NOTE 1)

	1986 (11 months)	1985 (12 months)
	$	$
Rentals	392,330	408,335
Heating and services	149,392	145,616
Grants in lieu of taxes	108,687	112,682
Depreciation	81,700	89,125
Repairs and maintenance	42,308	45,244
	382,087	392,667
Net income	10,243	15,668
Retained earnings (Deficit) at beginning of the year	14,917	(751)
Retained earnings at end of the year	25,160	14,917

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	3,790,000	3,790,000
Fixed assets retroceded to Canada	3,611,750	
Balance at end of the year	178,250	3,790,000

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Operating		
Administration, finance and property	3,321,031	2,686,504
Public affairs and animation	1,248,021	1,188,875
Management's office	340,981	541,085
Planning and development	259,485	296,946
	5,169,518	4,713,410
Capital	616,819	18,132,436
Employment program—Job creation		19,584
Quebec 1534-1984		3,407,345
Total	5,786,337	26,272,775
Proceeds from other than the direct use of fixed assets		
Interest, related principally to the receipt of parliamentary appropriations in advance of needs	160,942	258,720
Other proceeds	9,049	320
	169,991	259,040
Net expenditures to be funded (Note 6)	5,616,346	26,013,735
Cumulative net expenditures since April 9, 1981	94,751,830	89,135,484
Proceeds from the direct use of fixed assets		
Rentals to be remitted (Note 4)	713,788	636,814
Cumulative direct proceeds since April 9, 1981	1,734,839	1,021,051
Excess of net expenditures over direct proceeds		
For the year	4,902,558	25,376,921
Cumulative since April 9, 1981	93,016,991	88,114,433

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and activities

Canada Lands Company (Vieux-Port de Québec) Inc. was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

Effective August 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for the implementation of a general development plan for the lands of the Vieux-Port de Québec under its jurisdiction and for administering, managing, promoting and operating such lands and their developments. The Corporation fulfils this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

From February 9, 1984 to February 27, 1986, the Corporation was responsible for its own account for the management, charge and direction of a parcel of land together with the improvements thereon which had been transferred to it, subject to certain limiting conditions, by order of the Governor General in Council on February 9, 1984. This property was retroceded on February 27, 1986.

2. Significant accounting policies

(a) Financial statements presentation

The Statement of Operations presents the transactions carried out by the Corporation for the management, charge and direction of the assets held from February 9, 1984 to February 27, 1986 for the benefit of Her Majesty.

The Statement of Transactions presents transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered or owned by the Corporation. They also include costs of acquiring and demolishing structures.

(c) Fixed assets and depreciation

Fixed assets transferred free of charge from Canada on February 9, 1984 were recorded at their current value at the date of transfer, with the offset being credited to contributed surplus. Depreciation was calculated under the straight line method using a rate of 2.5% per annum based on the estimated useful life for the main structure of the building.

These were retroceded free of charge to Canada on February 27, 1986. The retrocession of these fixed assets was recorded at their net book value.

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

3. Accounts receivable

The accounts receivable include the following amounts:

	1986	1985
	$	$
Public services organization	468,368	467,816
Canada Ports Corporation	175,000	175,000
Department of Public Works (Note 5)		54,824
Others	141,490	388,185
	784,858	1,085,825

The amount receivable from the public services organization is for specific work carried out by the Corporation during the year 1982-83. The related cost is recoverable upon the signing of a protocol by the Corporation, the Canada Ports Corporation and the organization. The protocol, not yet signed, provides for the transfer of certain privileges from the Corporation and the Canada Ports Corporation. The work is completed for all practical purposes. The Corporation has not yet decided to transfer the privileges requested by the organization. It is possible that the Corporation may not recover the related cost and would have to account for it as a capital expenditure.

The amount receivable from the Canada Ports Corporation derives from a protocol providing for the reimbursement to the Corporation of expenditures it incurred for work carried out inside the strip of land upon which the Canada Ports Corporation has operational jurisdiction. This protocol provides that the reimbursement will be made out of a global amount approved by the Treasury Board to the Canada Ports Corporation, if there are funds remaining available. As at March 31, 1986, the Corporation had claimed for the reimbursement of expenditures totalling $650,000 for expenditures incurred mainly during the year 1982-83, of which $475,000 had been received to that date. Not being able to determine the funds remaining available to the Canada Ports Corporation, the Corporation cannot establish the additional amount it might expect to receive, or any amount up to the $475,000 already received it might have to refund. Any difference established at the time of the final settlement of this transaction will be accounted for as a capital expenditure.

4. Due from Receiver General for Canada

	1986	1985
	$	$
Balance receivable at beginning of the year	67,540	704,354
Direct proceeds	713,788	636,814
	646,248	67,540
Remittances to the Consolidated Revenue Fund	766,713	
Balance receivable at end of the year	120,465	67,540

5. Accounts payable

The accounts payable include an amount of $182,704 due to the Department of Public Works as at March 31, 1986 ($54,824 receivable as at March 31, 1985) as follows:

	1986	1985
	$	$
Grants in lieu of taxes paid by the Department for the account of the Corporation since February 9, 1984	230,523	121,836
Rentals received to be reimbursed	150,214	
Claim for late delivery of the leased premises	89,546	89,546
	470,283	211,382
Less: cost of fitting-up premises for renting	287,579	266,206
Due to (due from) at the end of the year	182,704	(54,824)

6. Due to Minister of Public Works

	1986	1985
	$	$
Balance payable (receivable) at begining of the year	460,536	(242,329)
Net expenditures	5,616,346	26,013,735
	5,155,810	26,256,064
Less:		
funds drawn from Department of Public Works Vote 40 (Votes 15 and 65 in 1985) for Canada Lands Company (Vieux-Port de Québec) Inc.	5,660,970	26,516,600
funds drawn from Department of Communications Vote 10 for the special cultural initiatives Program		200,000
	5,660,970	26,716,600
Balance payable at end of the year	505,160	460,536

7. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada and which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

8. Contingencies

The Corporation and the corporation Québec 1534-1984 signed a protocol of general understanding determining the rights and obligations of each party for the staging in 1984 of a festive event and for the use of the site and of the equipment under the jurisdiction of the Corporation. Under the terms of the agreement, the Corporation has not granted the right to use the totality of the site, reserving for itself some premises that it might rent for commercial purposes. Leases were signed but, because of poor attendance, several were modified, cancelled or abandoned. The Corporation has received claims arising from those leases, for a total in excess of $3.0 million, and more may yet be received. Management is of the opinion that these claims will not result in any significant financial responsibility for the Corporation.

SUMMARY PAGE

CANADA MORTGAGE AND HOUSING CORPORATION

MANDATE

To promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions.

BACKGROUND

Established in 1946, the corporation acts as the government's agent in the provision of grants, contributions and subsidies for the advancement of housing and community development. It conducts research and provides policy advice to government; it administers the Mortgage Insurance Fund, the prime purpose of which is to ensure an adequate supply of mortgage funds for housing, and it lends to groups and individuals for housing purposes and invests in housing-related projects.

CORPORATION DATA

HEAD OFFICE	682 Montreal Road Ottawa, Ontario K1A 0P7
STATUS	—Schedule C, Part I —an agent of Her Majesty, except when s.14 of its Act applies.
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1946; by the *Central Mortgage and Housing Corporation Act* (R.S.C. 1970, C-16).
CHIEF EXECUTIVE OFFICER	George D. Anderson
CHAIRMAN	Robert E. Jarvis, Q.C.
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983 (restated)
At the end of the year				
Total Assets	9,815	10,051	10,277	10,383
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	9,544	9,802	9,990	10,212
Equity of Canada	50	50	50	50
Cash from Canada in the year				
—budgetary	1,355	1,656	1,728	1,890
—non-budgetary	222	293	374	424

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

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SUMMARY PAGE

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MANDATE

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CORPORATION DATA

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DEPARTMENT	Public Works
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AUDITOR	Deloitte Haskins & Sells

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Cash from Canada in the year				
—budgetary	1,355	1,656	1,728	1,890
—non-budgetary	222	293	374	424

CANADA MORTGAGE AND HOUSING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management of the Corporation is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements. The accompanying financial statements of the Corporation as at December 31, 1986 were prepared by management in accordance with the accounting policies, consistently applied, as described in the notes to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The financial statements have been examined by the auditor, Robert D. Hepburn, C.A. of the firm Deloitte Haskins & Sells and his reports offer an independent opinion on the financial statements to the Minister responsible for Canada Mortgage and Housing Corporation.

G.D. Anderson
President and Chief Executive Officer

N.E. Hallendy
Acting Senior Vice-President Corporate Resources

Ottawa, Canada
February 23, 1987

FINANCIAL STATEMENTS DECEMBER 31, 1986

Canada Mortgage and Housing Corporation was incorporated as a Crown Corporation by an Act of Parliament on January 1, 1946. Its activities are regulated by the National Housing Act, the Canada Mortgage and Housing Corporation Act and, in certain respects, the Financial Administration Act, and include:

Corporate Account

Financing housing and community improvement through the making of loans and investments under specific conditions at interest rates normally at market rates which are generally higher than the rates it pays on funds borrowed from the Government of Canada.

Minister's Account

Making certain payments or incurring expenses in the process of delivering housing programs on behalf of the Government of Canada. These payments and expenses include grants, contributions, subsidies, loan forgiveness, losses on real estate, losses under federal-provincial agreements, interest rate losses, research and development, and specified administrative costs. The funding for these activities is provided for in Main and Supplementary Estimates which are tabled in Parliament. Parliamentary approval is by way of the Appropriations Act together with Statutory Authorities which authorize the responsible Minister to reimburse the Corporation for the specified payments and expenses for the fiscal year concerned.

Funds Administered

Administering certain Insurance and Guarantee Funds on behalf of the Government of Canada. The Mortgage Insurance Fund is the chief instrument for establishing a framework of confidence for mortgage lending by private institutions. This instrument facilitates an adequate supply of mortgage funds by reducing the risk to lenders and encouraging the secondary market trading of mortgages, and thereby increasing the access to housing by Canadians.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

AUDITOR'S REPORT

TO THE HONOURABLE STEWART D. McINNES, P.C., M.P.
MINISTER RESPONSIBLE FOR
CANADA MORTGAGE AND HOUSING CORPORATION

I have examined the balance sheet of Canada Mortgage and Housing Corporation, Corporate Account as at December 31, 1986, and the statements of operations and reserve fund, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and procedures as I considered necessary in the circumstances.

In my opinion, these financial statements, present fairly the financial position of the Corporation as at December 31, 1986, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements were, in all significant respects, in accordance with the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act, the by-laws of the Corporation and any directives given to the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 23, 1987

CORPORATE ACCOUNT

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986		1985	
Loans and investments—Schedule				
Market housing	1,890,335		2,044,579	
Social housing	6,497,463		6,475,292	
Housing support	1,352,168	9,739,966	1,435,968	9,955,839
Accounts Receivable				
The Minister	26,301		13,188	
Other	11,587	37,888	17,455	30,643
Deferred Income Taxes		7,691		7,199
Business Premises, Office Furniture and Equipment, at cost	39,030		35,939	
Accumulated depreciation	24,309	14,721	21,916	14,023
Other Assets		14,866		5,699
		9,815,132		10,013,403

LIABILITIES	1986		1985	
Borrowings from the Government of Canada		9,513,779		9,761,059
Cheques Issued in Excess of Funds on Deposit		149,998		106,532
Accounts Payable and Accrued Liabilities				
The Receiver General for Canada	30,472		40,853	
Funds administered	3,675		886	
Other	53,643	87,790	49,172	90,911
Unfunded Pension Fund Liability		13,565		4,901
		9,765,132		9,963,403
CAPITAL AND RESERVE FUND				
Capital				
Authorized and fully paid by the Government of Canada	25,000		25,000	
Reserve Fund	25,000	50,000	25,000	50,000
		9,815,132		10,013,403

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986		1985	
Market Housing				
Interest earned	176,772		197,052	
Gain (Loss) on disposal of real estate	(27)		14,242	
	176,745		211,294	
Interest expense	159,501	17,244	171,387	39,907
Social Housing				
Interest earned	585,456		581,397	
Gain on disposal of real estate	4,528		463	
	589,984		581,860	
Interest expense	551,618	38,366	547,604	34,256
Housing Support				
Interest earned	122,141		129,049	
Gain on disposal of land assembly projects	9,535		12,172	
Gain (Loss) on disposal of real estate	738		(1,380)	
	132,414		139,841	
Interest expense	113,017	19,397	118,909	20,932
Other Interest Income		8,597		11,511
Margin on Financing Operations		83,604		106,606
Services to Others		9,064		13,023
		92,668		119,629
Administrative Expenses		44,250		44,560
Income before Income Taxes and Extraordinary Item		48,418		75,069
Income Taxes				
—Current	24,343		34,042	
—Deferred	(492)	23,851	1,776	35,818
Income before Extraordinary Item		24,567		39,251
Extraordinary Item				5,356
Net Income		24,567		33,895
Reserve Fund, beginning of year		25,000		25,000
		49,567		58,895
Transferred to the Receiver General for Canada		24,567		33,895
Reserve Fund, end of year		25,000		25,000

See accompanying notes.

CORPORATE ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Cash Generated by Operations		
Income before income taxes and extraordinary item	48,418	75,069
Add (Deduct): net change in accrued interest	5,520	(9,996)
depreciation	2,393	2,190
	56,331	67,263
Repayments of loans and investments	453,686	587,885
Borrowings from the Government of Canada	222,100	293,000
Decrease in accounts receivable from the Minister		8,630
Increase in accounts payable to Funds administered	2,789	
Other	8,018	
	742,924	956,778
Cash Applied to Operations		
Additions to loans and investments	244,108	351,355
Repayment of borrowings from the Government of Canada	468,606	478,074
Unfunded pension fund liability contribution	1,273	2,691
Increase in accounts receivable from the Minister	13,113	
Decrease in accounts payable to Funds Administered		874
Special pension plan contribution		10,135
Other		47,028
Paid to Receiver General for Canada		
—Federal income taxes	25,284	28,086
—Excess in reserve fund	33,895	39,654
—Other	111	122
	786,390	958,019
Decrease in Cash	43,466	1,241

See accompanying notes.

CORPORATE ACCOUNT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Significant Accounting Policies

In the Corporate Account, the Corporation follows generally accepted accounting principles. The financial statements of the Mortgage Insurance Fund and the other Insurance and Guarantee Funds are not consolidated with these financial statements. The principal accounting policies followed by the Corporation are:

(a) Loans

Loans are capitalized as funds are advanced. Where loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Minister when the loans are advanced. Loans under certain programs give rise to interest rate losses which are recoverable from the Minister. No provisions are made for possible losses on loans. Losses on insured loans are recoverable from the Mortgage Insurance Fund while property acquired upon default of uninsured loans is subject to loss recovery as described under Real Estate. Other losses on uninsured loans are recoverable from the Minister.

(b) Federal-Provincial Agreements

Loans and investments are made under various cost sharing agreements with the provinces and territories to encourage development of rental housing, land assembly, co-operative housing, rural and native housing and housing rehabilitation. Only the Corporation's share of costs plus capitalized interest

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

are reflected in these statements. The Corporation's share of subsidies and losses related to these agreements are recovered from the Minister. Gains on the sale of land assembly are recognized as income in the Corporate Account. In accounting for federal-provincial loans and investments, the Corporation relies, in the majority of instances, on information provided by the provinces and territories.

(c) Real Estate

Real estate includes vacant land and properties acquired directly by the Corporation, or through the Government of Canada at no cost, or through default on uninsured loans. All real estate is recorded at cost which includes acquisition costs and any modernization and improvement costs.

Holding costs on real estate acquired directly by the Corporation are capitalized up to appraised values after which the costs are expensed in the Corporate Account. Net gains and losses on the disposal of these properties are recorded in the Corporate Account.

Holding costs on real estate acquired through the Government of Canada at no cost, or through default on uninsured loans, are capitalized. Net gains and losses on the disposal of these properties are paid to or recovered from the Minister.

All net operating losses on real estate are recovered from the Minister.

(d) Depreciation

Depreciation of real estate is recorded on a straight line basis over the expected useful life of the properties.

Depreciation on business premises, office furniture and equipment is recorded on a diminishing balance basis.

(e) Employees' Pension Plan

Current service costs of the employees' pension plan and interest on the unfunded liability are recorded as administrative expenses in the current year. Experience gains or losses are recognized in the year in which they are identified. An actuarial valuation is made at least every three years in accordance with the provisions of the Pension Benefits Standards Act.

(f) Reserve Fund

Income or loss after income taxes is transferred to the Reserve Fund which is limited by an Order-in-Council to $25 million. Any excess over this amount is transferred to the credit of the Receiver General for Canada.

(g) Interest Income and Expense

Interest income and expense are accounted for on the accrual basis.

2. Borrowings from the Government of Canada

The Corporation borrows from the Government of Canada under the provisions of Section 22 of the Canada Mortgage and Housing Corporation Act and Sections 40 and 55 of the National Housing Act to finance loans and investments. The borrowings are evidenced by debentures or other evidences of indebtedness, which bear interest at varying rates and are repayable over periods not in excess of 50 years.

3. Contingent Liabilities

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. At December 31, 1986, most of the claims outstanding are not expected to have a result which would be significant in relation to the financial position of the Corporation. However, during 1982 a large number of legal actions, which total approximately $48 million at December 31, 1986, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation. The Corporation does not admit liability in these cases and, until the actions have been heard by the courts, it is impossible to determine if there is a potential liability in this respect and thus no provision for possible loss arising from these legal actions is included in these financial statements. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

4. Interest Loss Recoveries

The Corporation was authorized by the Government of Canada to approve certain loans and investments at a negative interest margin and to recover this loss from the Government. The interest loss recovered is included in interest earnings. The recoveries by program are as follows:

	1986	1985
	(in millions of dollars)	
Market Housing	63.8	59.0
Social Housing	18.7	19.3
Housing Support	1.2	1.3

5. Services to Others

The major components of services to others are: delivery of Canadian Home Insulation Program grants on behalf of Energy, Mines and Resources Canada; inspections; and administration of mortgages for third parties.

6. Actuarial Valuation of the CMHC Pension Fund

The Corporation maintains a compulsory contributory defined benefit pension plan for all regular employees who satisfy certain eligibility conditions. The plan provides pensions based on the annual average salaries of any six-year period multiplied by the number of years of credited service.

The administrative expenses of the Corporation for 1986 include a charge of $9.9 million, being the increase in the unfunded future benefits obligation arising from an actuarial valuation of the Fund at January 1, 1986.

The cumulative difference between the amounts expensed and the funding contribution has been reflected in the balance sheet as a liability. This liability will be funded by annual payments up to the year 2000.

7. Administrative Expenses

Total administrative expenses of the Corporation for the year ended December 31, 1986 amounted to $178.5 million (1985—$174.6 million). These administrative expenses have been allocated to the Corporate Account, Minister's Account and Funds Administered.

8. Commitments

Commitments outstanding for loans and investments amounted to $435 million at December 31, 1986 (1985—$495 million).

9. Comparative Figures

The 1985 comparative figures have been reclassified to conform to the statement presentation adopted in 1986. The 1985 figures are based upon financial statements which were reported on by Paul-André Michaud, C.A. of the firm, Samson Bélair.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

SCHEDULE OF LOANS AND INVESTMENTS
BALANCE DECEMBER 31
(in thousands of dollars)

	1986	1985
Market Housing		
Loans	1,813,615	1,960,040
Federal-provincial agreements		
Loans	61,155	70,386
Real estate		
Investments in housing projects	1,314	1,345
Land	14,251	12,808
	15,565	14,153
	1,890,335	2,044,579
Social Housing		
Loans	2,439,325	2,492,049
Federal-provincial agreements		
Loans	2,707,817	2,720,741
Investments in housing projects	1,322,964	1,231,115
	4,030,781	3,951,856
Real estate		
Investments in housing projects	26,188	30,217
Land	1,169	1,170
	27,357	31,387
	6,497,463	6,475,292
Housing Support		
Loans	1,247,728	1,321,562
Federal-provincial agreements		
Loans	49,873	59,686
Land assembly projects	34,719	34,439
	84,592	94,125
Real estate		
Land	19,848	20,281
	1,352,168	1,435,968
Total	9,739,966	9,955,839

MINISTER'S ACCOUNT

AUDITOR'S REPORT

TO THE HONOURABLE STEWART D. McINNES, P.C., M.P.
MINISTER RESPONSIBLE FOR
CANADA MORTGAGE AND HOUSING CORPORATION

I have examined the Canada Mortgage and Housing Corporation, Minister's Account—Statement of Expenditures and Recoveries for the year ended December 31, 1986. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditures for and recoveries from the Minister for the year then ended in accordance with the accounting policy described in Note 1 to this financial statement applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, the transactions in the Minister's Account that have come to my notice during my examination of the financial statement were, in all significant respects, in accordance with the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act, the by-laws of the Corporation and any directives given to the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 23, 1987

MINISTER'S ACCOUNT

STATEMENT OF EXPENDITURES AND RECOVERIES
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Expenditures		
Market Housing	62,990	246,284
Social Housing	1,228,578	1,327,512
Housing Support	13,974	12,388
Administrative Expenses	62,622	61,332
Total	1,368,164	1,647,516
Accounts Receivable from the Minister, beginning of year	13,188	21,818
	1,381,352	1,669,334
Recoveries	1,355,051	1,656,146
Accounts Receivable from the Minister, end of year	26,301	13,188

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

MINISTER'S ACCOUNT

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 1986

1. Significant Accounting Policy

Expenditures made on behalf of the Minister responsible for the Corporation are recorded as recoverable when disbursed. No accruals are made at December 31, 1986 in this account. The year-end for the Government of Canada is March 31, 1987, at which time accruals will be recorded in accordance with Treasury Board Guidelines and reported in the Public Accounts of Canada.

2. Contingent Liabilities

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. During 1982, a large number of legal actions, which total approximately $48 million at December 31, 1986, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation. The Corporation does not admit liability in this respect and it is unclear whether costs, if any, arising from these actions could be charged to the Government of Canada. Thus, no provision for possible loss arising from these legal actions is included in the accompanying statement of account. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

3. Administrative Expenses

The administrative expenses charged to the Minister by the Corporation for the year ended December 31, 1986 amounted to $62.6 million (1985—$61.3 million).

4. Comparative Figures

The 1985 comparative figures have been reclassified to conform to the statement presentation adopted in 1986. The 1985 figures are based upon financial statements which were reported on by Paul-André Michaud, C.A. of the firm, Samson Bélair.

FUNDS ADMINISTERED

AUDITOR'S REPORT

TO THE HONOURABLE STEWART D. McINNES, P.C., M.P.
MINISTER RESPONSIBLE FOR
CANADA MORTGAGE AND HOUSING CORPORATION

I have examined the balance sheets of the Funds Administered by Canada Mortgage and Housing Corporation: Mortgage Insurance Fund, Home Improvement Loan Insurance Fund and Rental Guarantee Fund as at December 31, 1986, and the related statements of operations and deficit or surplus, and of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and procedures as I considered necessary in the circumstances.

In my opinion, these financial statements, present fairly the financial position of these funds as at December 31, 1986, and the results of operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, the transactions that have come to my notice during my examination of these financial statements were, in all significant respects, in accordance with the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act, the by-laws of the Corporation and any directives given to the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 23, 1987

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986		1985	
Accounts Receivable				
Canada Mortgage and Housing Corporation	3,553		948	
Other	4,839	8,392	16,247	17,195
Investments in Securities		141,895		
Mortgages		79,298		93,760
Real Estate, at cost	465,563		534,602	
Provision for revaluation	196,421	269,142	205,384	329,218
		498,727		440,173

LIABILITIES	1986	1985
Accounts Payable and Accrued Liabilities	11,188	4,934
Provision for Loss on Claims	263,192	271,139
Unearned Premiums	395,587	320,429
Premium Deficiency	262,043	316,110
Borrowings from the Government of Canada		255,500
	932,010	1,168,112
Deficit	433,283	727,939
	498,727	440,173

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenue		
Earned premiums	81,663	64,521
Application fees	25,135	29,772
Interest	12,643	11,670
Total Revenue	119,441	105,963
Expenses		
Insurance issuance	39,913	42,594
Loss on claims	86,939	73,035
	126,852	115,629
Adjustment to premium deficiency	(54,067)	(67,890)
Total Expenses	72,785	47,739
Income before Recovery of Losses	46,656	58,224
Recovery of Losses	248,000	
Net Income	294,656	58,224
Deficit, beginning of year	727,939	786,163
Deficit, end of year	433,283	727,939

See accompanying notes.

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Cash Generated by Operations		
Premiums	156,821	170,450
Application fees	25,135	29,772
Interest received	12,109	11,582
Claims paid	(213,535)	(585,955)
Proceeds from real estate sales	212,485	243,451
Administrative costs	(62,102)	(68,715)
Other	20,379	2,996
	151,292	(196,419)
Cash Applied to Investment Activities		
Investment in securities	(141,187)	
	(141,187)	
Cash Applied to Financing Activities		
Borrowings from the Government of Canada	8,000	258,600
Repayment of borrowings	(15,500)	(63,000)
	(7,500)	195,600
Increase (Decrease) in Accounts Receivable from Canada Mortgage and Housing Corporation	2,605	(819)

See accompanying notes.

FUNDS ADMINISTERED
HOME IMPROVEMENT LOAN INSURANCE FUND

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Cash and Investment in Securities	1,318	1,179
Accounts Receivable from Canada Mortgage and Housing Corporation	16	7
Mortgages	5	8
	1,339	1,194

LIABILITIES	1986	1985
Unearned Premiums		3
Surplus	1,339	1,191
	1,339	1,194

See accompanying notes.

FUNDS ADMINISTERED
HOME IMPROVEMENT LOAN INSURANCE FUND

STATEMENT OF OPERATIONS AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenue		
Interest	111	428
Other	51	36
Total Revenue	162	464
Expenses		
Claims and administrative charges	14	33
Net Income	148	431
Surplus, beginning of year	1,191	7,590
Assets returned to the Government of Canada		6,830
Surplus, end of year	1,339	1,191

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED
RENTAL GUARANTEE FUND

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986		1985	
Cash and Investment in Securities		3,514		3,438
Accounts Receivable from Canada Mortgage and Housing Corporation		106		
Real Estate, at cost	11,457		10,936	
Provision for loss	3,757	7,700	3,186	7,750
		11,320		11,188

LIABILITIES	1986	1985
Accounts Payable to Canada Mortgage and Housing Corporation		69
Accrued Liabilities	96	122
Surplus	11,224	10,997
	11,320	11,188

See accompanying notes.

FUNDS ADMINISTERED
RENTAL GUARANTEE FUND

STATEMENT OF OPERATIONS AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenue		
Interest	305	1,188
Expenses		
Provision for loss on real estate	571	(1,992)
Other	(493)	(69)
Total Expenses	78	(2,061)
Net Income	227	3,249
Surplus, beginning of year	10,997	26,548
Assets returned to the Government of Canada		18,800
Surplus, end of year	11,224	10,997

See accompanying notes.

FUNDS ADMINISTERED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Significant Accounting Policies

The principal accounting policies followed by the Corporation in administering the Insurance and Guarantee Funds on behalf of the Government of Canada are:

(a) Premiums

Premiums are deferred and are taken into income over the life of the related policies. Premiums earned in a year reflect the amount of risk in that year as determined by the valuation actuary. The determination is based upon factors prescribed by the Department of Insurance Canada.

(b) Application Fees

Application fees for insurance are recognized as income when received.

(c) Issuance Costs

Issuance costs are expensed as incurred.

(d) Premium Deficiency

Annually, the Corporation compares the amount of its unearned premiums by line of business to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums on a line of business are inadequate to meet the expected net costs of future claims, a premium deficiency is established. The premium deficiency is taken into income on the same basis as the related unearned premiums.

(e) Real Estate

Real estate acquired upon the payment of a claim resulting from a loan default is valued at net realizable value. Cost is comprised of the unpaid loan balance plus interest accrued to the date of acquisition together with acquisition and capital improvement expenditures. Net realizable value is calculated as the current appraised value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Depreciation is not recorded on the real estate.

(f) Provision for Loss on Claims

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which a claim has not yet been received by the Corporation.

(g) Interest Income and Expense

Interest income and expense are recorded on the accrual basis.

(h) Mortgages

Mortgages are shown net of a provision for losses.

(i) Income Tax

The Insurance and Guarantee Funds are not subject to the provisions of the Income Tax Act, Canada.

2. Borrowings from the Government of Canada—Mortgage Insurance Fund

The Corporation may borrow from the Government of Canada, on behalf of the Fund, under provisions of Section 9 of the National Housing Act in order to meet the Fund's obligations. Borrowing arrangements pursuant to an Order-in-Council dated August 8, 1984 authorize interest free borrowings secured by promissory notes due on demand to a maximum of $400 million.

CANADA MORTGAGE AND HOUSING CORPORATION—*Concluded*

FUNDS ADMINISTERED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

3. Actuarial Valuation—Mortgage Insurance Fund

At September 30, 1986 an actuarial study of the Fund undertaken by the Corporation during the year disclosed that the Fund continues to be insufficient to pay all future claims in respect of business in force. The deficit as at September 30, 1986, estimated to be $454.3 million, has decreased to $433.3 million at December 31, 1986.

4. Recovery of Losses—Mortgage Insurance Fund

As a result of Treasury Board approval in December 1985, the outstanding borrowings of $248 million at March 27, 1986 were forgiven. This forgiveness represents partial reimbursement for the losses on the Assisted Home Ownership and Assisted Rental Programs.

In 1987, the Corporation will pursue with the Government of Canada avenues for eliminating the remaining deficit.

5. Insurance in Force—Mortgage Insurance Fund

At December 31, 1986, the insurance policies in force totalled approximately $39.3 billion (1985—$37.7 billion).

6. Home Improvement Loan Insurance and Rental Guarantee Funds

The Home Improvement Loan Insurance and Rental Guarantee Programs are no longer active.

7. Administrative Expenses—Funds Administered

The administrative expenses allocated to the Funds by the Corporation for the year ended December 31, 1986 amounted to $67.3 million (1985—$68.7 million).

8. Comparative Figures

The 1985 comparative figures have been reclassified to conform to the statement presentation adopted in 1986. The 1985 figures are based upon financial statements which were reported on by Paul-André Michaud, C.A. of the firm, Samson Bélair.

SUMMARY PAGE

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

MANDATE

To construct in the National Capital Region the National Gallery of Canada, the Canadian Museum of Civilization, (formerly called The National Museum of Man) and any other museum which the Governor in Council may direct.

BACKGROUND

The main structures of the corporation's two projects are scheduled for completion by 1989. To March 31, 1987, the government had allocated for the corporation a total of $308.0 million for these projects for the period to March 31, 1990.

CORPORATION DATA

HEAD OFFICE	55 Murray Street P.O. Box 395, Station A Ottawa, Ontario K1N 5M3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1982; by letters patent (No. 0132114) under the *Canada Business Corporations Act*.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Robert Giroux
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Total Assets	173.2	100.3	50.1	15.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	157.4	91.3	44.8	13.4
Cash from Canada in the period				
— budgetary	66.0	46.5	31.5	10.8
— non-budgetary	nil	nil	nil	nil

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors of the Canada Museums Construction Corporation Inc. is responsible for the financial statements and the integrity and objectivity of data contained therein. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgement.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that transactions are in accordance with the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

The Board of Directors appoints the Audit Committee which is composed of three directors, two of whom are not employees of the Corporation. The Audit Committee meets at least annually to review and advise the Board of Directors with respect to the financial statements and the auditor's report thereon. The Audit Committee also oversees the internal audit activities of the Corporation and performs such other functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Public Works who is responsible for the Canada Museums Construction Corporation Inc.

R. Plourde
Treasurer and Comptroller

R.J. Giroux
Chairman and Chief Executive Officer

AUDITOR'S REPORT

THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Museums Construction Corporation Inc. as at March 31, 1987 and the statement of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Cash and short-term deposits	4,489	4,177
Accounts receivable	549	116
Construction in progress (Schedule)	168,138	95,957
	173,176	100,250

LIABILITIES	1987	1986
Accounts payable and accrued liabilities	7,776	5,449
Contractors holdbacks payable	8,053	3,454
	15,829	8,903
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)		
Contributed capital (Note 4)	157,347	91,347
	173,176	100,250

Approved by the Board:

ROBERT J. GIROUX
Chairman and Chief Executive Officer

JEAN E. PIGOTT
Director

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operating activities		
Accounts receivable	(433)	(28)
Construction in progress (Schedule)	(72,181)	(49,986)
Accounts payable and accrued liabilities	2,327	1,715
Contractors holdbacks payable	4,599	1,951
Cash used in operating activities	(65,688)	(46,348)
Financing activities		
Contributed capital (Note 4)	66,000	46,500
Cash provided by financing activities	66,000	46,500
Increase in cash	312	152
Cash and short-term deposits		
Beginning of year	4,177	4,025
End of year	4,489	4,177

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and activities

The Corporation was incorporated on June 21, 1982 under the Canada Business Corporations Act as an agent of Her Majesty pursuant to the Government Companies Operations Act, and was named as a parent Crown corporation on February 7, 1985 in Schedule C, Part I of the Financial Administration Act. Two-thirds of the capital stock is held by the Canada Lands Company Limited, also a parent Crown corporation. On May 16, 1985 one-third was transferred from the Minister of Communications to the Minister of Public Works, the Responsible Minister with whom the control of the Corporation lies.

The business of the Corporation is limited to construction, in the National Capital Region, of buildings for the National Gallery of Canada (NGC), the Canadian Museum of Civilization (CMC) (previously known as National Museum of Man) and any other national museum which the Governor in Council may direct, including the acquisition, control, administration and disposal of land required for the construction. Unless otherwise directed by the Governor in Council, the Corporation shall be wound up after completion of the museum construction projects.

(a) Funding

In September 1981, the Government allocated $185 million for the two projects. This was revised in November 1983 to $191.45 million. In October 1985, the Treasury Board approved an increase of $69.54 million, and in January 1987, Treasury Board approved an additional $46.79 million, bringing the total funds allocated for construction of the museums to $307.78 million for the period to March 31, 1990 as follows:

	NGC	CMC	Total
	(in millions of dollars)		
Construction	115.56	149.28	264.84
Architects and consultants	10.84	19.55	30.39
	126.40	168.83	295.23
Administration expenses	6.28	6.27	12.55
	132.68	175.10	307.78

In October 1985, the Government directed the National Capital Commission to undertake the landscaping of both sites, estimated to cost the Commission $7 million from funds provided out of the Commission's existing budget.

The Corporation's budget for landscaping of the museums is $10.8 million; $3.8 million is included in the construction costs indicated above and the work is being done under the direction of the Corporation.

In January 1987, Treasury Board approved the establishment of a special reserve of $142.8 million within its Operating Reserve to provide the required funding to 1989-90 for all agencies (Department of Public Works, National Museums of Canada, National Capital Commission and Canada Museums Construction Corporation) involved in completing the Canadian Museum of Civilization. The reserve is to cover all incremental costs associated with completing the Museum, including construction, fit-up, exhibit development and initial operating costs of the Museum. Treasury Board, while noting that estimates sufficiently accurate to obtain effective project approval are not yet available, also approved a project approval level of $168.8 million for the construction of the Museum and expected that construction would be completed within this total. Any further cost increases or other funding requirements to 1989-90 are to be absorbed within the reserve and/or from approved funds within the portfolios of the Ministers of Public Works and of Communications. Treasury Board also underlined the joint responsibility of the Ministers of Public Works and of Communications to complete the project on schedule, with final completion and official opening in 1989 and with some form of limited opening to the public in 1988.

(b) Construction

In February 1983, the Government approved the construction sites and architects and in November 1983, the building concepts as developed by the architects and the long-term forecast of the building schedule and funding requirements for each museum. No provision was made for the cost of the sites. Major portions of the sites for the two museums are federally owned with the legal title to the lands currently belonging to the National Capital Commission. In keeping with the intent of the projects, which includes the eventual transfer of the completed buildings to Her Majesty in right of Canada, the Commission disclaims title to the construction in progress. On March 26, 1986, the Treasury Board approved the transfer of the lands of CMC and NGC currently owned by the Commission to Department of Public Works. The transfer is subject to Governor in Council approval. Negotiations by Public Works and the National Capital Commission to acquire parts of the sites that are not federally owned are underway.

2. Significant accounting policies

(a) Basis of accounting

These financial statements account for the costs incurred by the Corporation in the construction of the museums. They do not account for costs incurred by the National Capital Commission for sites or by the National Museums of Canada for accommodations planning and fit-ups.

(b) Capitalization

All expenditures, including those for site evaluation, design, construction and administration, will be capitalized until the museums are completed. Interest and other income are credited to construction in progress. Costs are allocated direct to each museum when they can be specifically identified. All other costs are allocated equally to the two museums.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

3. Capital stock

The Corporation is authorized to issue three shares which shall not be transferred without the approval of the Governor in Council.

The Corporation acknowledges past services rendered as full consideration for the value of the shares issued.

4. Contributed capital

During the year funding of $66.0 million was provided through Vote 20 of the Department of Public Works for the expenditures of the Corporation (1986—$46.5 million, Vote 20 of the Department of Communications).

	1987	1986
	(in thousands of dollars)	
Opening balance	91,347	44,847
Funds provided during the year	66,000	46,500
Ending balance	157,347	91,347

5. Pension plans

(a) The Corporation has instituted, with a private sector organization, a contributory pension plan covering all its regular employees. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions represent its total liability and are recognized in the accounts on a current basis. Pension costs for the plan amounted to $69,850 for the year ended March 31, 1987 (1986—$70,244).

(b) The Corporation has fully discharged its obligations to provide an annual pension of $35,000, inclusive of pension funds transferred from previous employment, under an agreement with one of its former officers upon termination of employment on March 31, 1987.

6. Contractual obligations

As at March 31, 1987, commitments for construction and related costs amounted to approximately $41.7 million as follows:

	(in thousands of dollars)
National Gallery of Canada	18,596
Canadian Museum of Civilization	23,132
	41,728

7. Lease commitment

The Corporation has renewed its lease agreement until March 31, 1988, for office space. Under the terms of the lease the Corporation is responsible for payment of operating expenses and taxes to the lessor and the amount of future minimum annual rental payments for 1987-88 is $267,847.

8. Contingencies and claims

(a) The Corporation has received claims from contractors, architects, and engineers and has made provision for costs which may be incurred in settling some of these claims. However, the Corporation is unable to determine the likelihood of its having to make payments in respect of claims amounting to $8.5 million and no provision has been made for this amount in the financial statements.

The Corporation has filed various claims against its architects under professional liability insurance policies. These claims are under review by the insurers and no provision for amounts to be recovered has been made in these financial statements.

(b) The City of Hull is seeking building permit fees from the Corporation in the amount between $480,000 and $720,000 relating to the construction of Canadian Museum of Civilization. It is anticipated that payment for permit fees will be resolved on behalf of the Corporation by the Department of Public Works and accordingly no provision has been made in these financial statements.

On May 28, 1987, the Minister of Public Works obtained Governor in Council approval for the settlement, on an ex-gratia basis, with the City of Ottawa of building permit fees and redevelopment charges amounting to $1.2 million relating to the construction of the National Gallery of Canada.

(c) As of March 31, 1987, grants in lieu of taxes for the sites and construction of the two Museums amounted to approximately $2.4 million. Management is of the opinion that the payment of grants in lieu of taxes, if necessary, will be resolved on behalf of the Corporation by the Department of Public Works and accordingly no provision has been made in these financial statements.

9. Related party transactions

The Corporation had the following transactions with related parties.

(a) During the year the Department of Public Works has provided technical and engineering support amounting to approximately $108,000 (1986—$122,000). The Department also provided without charge the services of a senior officer to the Corporation on a full-time basis from May 16, 1985 till July 14, 1986.

(b) Under an arrangement with the National Museums of Canada, the Corporation will be reimbursed for costs incurred up to $600,000 in connection with building work required estimated at $870,000 in the Rideau Street Chapel space in the new National Gallery. At March 31, 1987, total costs incurred amounted to $391,661 of which $295,845 is included in accounts receivable.

10. Administration expenditures

The Corporation incurred the following administration expenditures which have been allocated equally to each museum on the schedule of construction in progress:

	1987	1986
	(in thousands of dollars)	
Salaries and employee benefits	1,354	1,299
Office accommodation	702	692
Professional and special services	115	218
Rental of equipment	76	87
Communications	47	92
Utilities, material and supplies	44	53
Travel and transportation	21	38
Public information	19	15
Other	15	17
Office furniture and equipment, net of proceeds from disposal	(7)	7
	2,386	2,518

11. Subsequent event

On May 14, 1987, the Corporation entered, on behalf of the National Museums of Canada, into a contract amounting to $410,000 with a consultant for interior design and fit-up of the public spaces and staff offices related to the new National Gallery of Canada. The funding of the contract will be provided by the National Museums of Canada.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Concluded*

SCHEDULE OF CONSTRUCTION IN PROGRESS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	National Gallery of Canada			Canadian Museum of Civilization			Total		
	Cumulative to March 31, 1986	1987	Cumulative to March 31, 1987	Cumulative to March 31, 1986	1987	Cumulative to March 31, 1987	Cumulative to March 31, 1986	1987	Cumulative to March 31, 1987
Site evaluation	108		108	108		108	216		216
Architects and consultants	8,797	1,632	10,429	9,221	5,650	14,871	18,018	7,282	25,300
Construction managers	2,359	1,852	4,211	2,251	1,256	3,507	4,610	3,108	7,718
Other construction costs	43,309	42,528	85,837	21,815	17,332	39,147	65,124	59,860	124,984
	54,573	46,012	100,585	33,395	24,238	57,633	87,968	70,250	158,218
Administration (Note 10)	4,744	1,193	5,937	4,744	1,193	5,937	9,488	2,386	11,874
	59,317	47,205	106,522	38,139	25,431	63,570	97,456	72,636	170,092
Less: interest income	750	227	977	749	228	977	1,499	455	1,954
	58,567	46,978	105,545	37,390	25,203	62,593	95,957	72,181	168,138

SUMMARY PAGE

CANADA PORTS CORPORATION

MANDATE

Planning and coordinating the development of the 15 ports and harbours, previously administered by the National Harbours Board, to achieve the objectives of the national ports policy and support Canadian international trade objectives, as well as other social and economic objectives. The corporation is also responsible for the direct administration, management and control of the ports and harbours not granted local port corporation status.

BACKGROUND

The corporation was established in 1983 with responsibility for the 15 ports and harbours across Canada that previously fell under the jurisdiction of the National Harbours Board. Subsequently, local port corporations were established at Montreal and Vancouver (in July 1983), at Halifax, Quebec and Prince Rupert (in June 1984), at St. John's (in June 1985), and at Saint John (in December 1986). These corporations are now operating with a high degree of local autonomy.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario K1A 0N6
STATUS	—Schedule C, Part II —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; pursuant to the *National Harbours Board Act* (R.S.C. 1970, N-8, s. 3); reconstituted by the *Canada Ports Corporation Act,* (S.C. 1980-81-82-83, C. 121, s. 1), proclaimed February 24, 1983.
CHIEF EXECUTIVE OFFICER	Jean-Michel Tessier
CHAIRMAN	The Honourable Ronald Huntington, P.C.
AUDITOR	Coopers & Lybrand

FINANCIAL SUMMARY* ($ million) The financial year is the calendar year.

	1986	**1985**	**1984 (restated)**	**1983**
At the end of the year				
Total Assets	100.0	231.3	246.5	445.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada**	19.5	85.0	85.1	182.7
Equity of Canada	67.2	92.8	106.9	185.9
Cash from Canada in the year				
—budgetary***	13.0	14.1	35.0	23.8
—non-budgetary	(7.0)	2.6	4.9	7.1

* Assets and related liabilities of this corporation have been transferred to new local port corporations.

** Excludes $5.5 million in accrued interest owed to Canada.

*** Takes no account of special contributions to Canada in 1986 of $26.7 million.

CANADA PORTS CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN C. CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1986 and the statements of income, surplus, contributed capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
February 18, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash	225	641
Investments (Note 4)	27,864	61,740
Accounts receivable	2,252	4,237
Due from Canada	458	2,645
Materials and supplies	352	514
	31,151	69,777
Long-term investments (Note 4)	18,225	19,102
Investment in Ridley Terminals Inc. (Note 5)	11,137	16,227
Fixed assets (Note 7)	39,528	126,147
	100,041	231,253

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities (Note 8)	6,158	13,539
Grants in lieu of municipal taxes	491	480
	6,649	14,019
Long-term		
Accrued employee benefits	1,303	1,554
Financing provided by a province (Note 9)		19,696
Loans from Canada (Note 10)	24,893	103,144
	26,196	124,394
EQUITY OF CANADA		
Contributed capital	55,896	130,734
Contribution from (to) Canada (Note 12)	(5,589)	20,072
Surplus (deficit)	16,889	(57,966)
	67,196	92,840
	100,041	231,253

On behalf of the Board:

THE HONOURABLE A.R. HUNTINGTON
Chairman

DENIS DE BELLEVAL
President and Chief Executive Officer

CANADA PORTS CORPORATION—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenue from operations	14,959	12,295
Operating and administrative expenses—Net	11,510	10,857
Depreciation	2,877	3,169
Grants in lieu of municipal taxes	1,255	1,286
	15,642	15,312
Net loss from operations	(683)	(3,017)
Investment income	5,149	6,864
Interest expense	(128)	(132)
Net income before the undernoted items	4,338	3,715
Net loss of ports established as local port corporations (Note 3)	(988)	(536)
Share in loss of Ridley Terminals Inc. (Note 5)	(5,090)	(4,797)
Net loss	(1,740)	(1,618)

STATEMENT OF SURPLUS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Deficit at beginning of the year		
As previously reported	(57,966)	(56,775)
Adjustment of prior year's share in loss of Ridley Terminals Inc. (Note 5)		1,291
As restated	(57,966)	(55,484)
Net loss	(1,740)	(1,618)
	(59,706)	(57,102)
Surplus (deficit) transferred to local port corporations (Note 3)	(76,595)	864
Surplus (deficit) at end of the year	16,889	(57,966)

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Contributed capital at beginning of the year	130,734	142,319
Forgiveness of deferred interest on loans from Canada (Note 10)	4,371	
Contributed capital transferred to local port corporations (Note 3)	(79,209)	(11,585)
Contributed capital at end of the year	55,896	130,734

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operating Activities		
Net loss	(1,740)	(1,618)
Items not affecting cash		
Depreciation	5,483	6,078
Deferred interest		609
Share in loss of Ridley Terminals Inc.	5,090	4,797
Other	127	122
Increase in operating components of working capital	(2,727)	(245)
Cash provided by operating activities	6,233	9,743
Financing Activities		
Capital grants	12,993	14,127
Loans from Canada	(6,993)	2,570
Decrease (increase) in current portion of Loans from Canada	1,469	(1,712)
Decrease (increase) in current portion of financing provided by a province	(175)	1,100
Repayment of deferred interest		(486)
Contribution to Canada	(26,694)	
Cash provided (required) by financing activities	(19,400)	15,599
Investing Activities		
Additions to fixed assets	16,379	17,310
Proceeds on disposal of fixed assets	(187)	(12)
Cash required by investing activities	16,192	17,298
Increase (decrease) in cash and short-term investments	(29,359)	8,044
Cash and short-term investments at beginning of the year	62,381	60,028
Cash and short-term investments transferred to local port corporations (Note 3)	(4,933)	(5,691)
Cash and short-term investments at end of the year	28,089	62,381

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Canada Ports Corporation Act

Canada Ports Corporation is established under the Canada Ports Corporation Act. The Act provides for the establishment of local port corporations to manage and operate selected ports. The Corporation is named in Part II of Schedule C of the Financial Administration Act and is exempt from income tax.

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of all the ports and other facilities under its administration. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

(b) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(c) Investment in Ridley Terminals Inc.

The investment in Ridley Terminals Inc. is accounted for on the equity basis.

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

(d) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(e) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(f) Insurance

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(g) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(h) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Local Port Corporations

At the closing of business on December 31, 1986, the Port of Saint John, New Brunswick was established as a local port corporation under the name of Saint John Port Corporation. The Port of St. John's, Newfoundland was established as a local port corporation on June 1, 1985, under the name of St. John's Port Corpotation.

In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred to the local port corporations on the dates of their establishment at their carrying value in the accounts of the Corporation. As a result, the carrying value of the assets, liabilities and equity of the Corporation has been reduced as follows:

	1986	1985
	(in thousands of dollars)	
Assets		
Cash and short-term investments	4,933	5,691
Other working capital	(309)	(303)
Long-term investments	949	944
Fixed	84,368	8,135
	89,941	14,467
Liabilities		
Long-term accrued employee benefits	483	69
Financing provided by a province	19,521	
Loans from Canada	68,356	1,949
	88,360	2,018
Equity		
Contributed capital	79,209	11,585
Contribution to Canada	(1,033)	
Surplus (deficit)	(76,595)	864
	89,941	14,467

The statement of income includes the results of operations of the Port of Saint John for the years ended December 31, 1986 and 1985, and the results of operations of the Port of St. John's for the five month period ended May 31, 1985 as follows:

	1986	1985
	(in thousands of dollars)	
Revenue from operations	11,562	12,228
Operating and administrative expenses	7,098	7,297
Depreciation	2,606	2,909
Grants in lieu of municipal taxes	801	808
	10,505	11,014
Net income from operations	1,057	1,214
Investment income	1,268	1,900
Interest expense	(3,313)	(3,650)
Net loss of ports established as local port corporations	(988)	(536)

4. Investments

Investments, which are direct and guaranteed securities of Canada, are:

	1986		1985	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(in thousands of dollars)			
Current	27,864	27,874	61,740	61,726
Long-term	18,225	22,050	19,102	21,830

5. Investments in Ridley Terminals Inc.

Ridley Terminals Inc. (RTI) was incorporated on December 18, 1981, under the Canada Business Corporations Act to develop, manage and operate a coal terminal on Ridley Island at the Port of Prince Rupert.

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

At December 31, 1986, Canada Ports Corporation (the Corporation) had acquired, at a cost of $23,021,400, 90% of the issued common shares ($900) and 100% of the Class A preference shares ($23,020,500) of RTI. As of that date, Fednav Limited had acquired, at a cost of $23,020,600, 10% of the issued common shares ($100) and 100% of the Class B preference shares ($23,020,500) of RTI.

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method in years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity in RTI which, at December 31, 1986, was 50%. In years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

As a result of RTI's successful appeal of the assessment of the 1983 and 1984 property taxes $2,582,000 was refunded to RTI in March 1985. The Corporation's deficit balance at January 1, 1985, was adjusted accordingly by $1,291,000 representing the Corporation's 50% share of the amount received.

The investment in Ridley Terminals Inc. is composed of:

	1986	1985
	(in thousands of dollars)	
Balance at beginning of the year	16,227	21,024
Share in loss	(5,090)	(4,797)
Balance at end of the year	11,137	16,227

A summary of the balance sheet of RTI as at December 31, as reported in its audited financial statements shows:

	1986	1985
	(in thousands of dollars)	
Assets		
Current	3,640	4,580
Fixed	224,792	230,540
Other	83	92
	228,515	235,212
Liabilities		
Current	1,225	1,941
Long-term debt	203,835	199,636
	205,060	201,577
Equity	23,455	33,635
	228,515	235,212

RTI has two long-term financing agreements with a major Canadian bank as follows:

(a) A construction credit loan agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 subordinate fixed and floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 through January 31, 2000. Interest on the bank loans is at the bank's prime rate, payable monthly. The Bankers' Acceptance fee is currently ½% per annum.

(b) A revolving credit loan agreement which provides an $80,000,000 credit facility for advances on a revolving basis until June 30, 1989 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments commencing July 31, 1989 through January 31, 1992. Interest on the bank loans is at the bank's prime rate plus ¼% per annum, payable monthly. The Bankers' Acceptance fee is currently ¾% per annum.

This agreement is secured by a $350,000,000 first fixed and floating charge collateral demand debenture with the terminal facility as security and an assignment of the lease with the Prince Rupert Port Corporation.

As at December 31, 1986, drawings under these agreements were as follows:

	1986	1985
	(in thousands of dollars)	
(a) Construction credit loan agreement—		
Bank loans		65,000
Bankers' acceptances, net of unamortized interest charges	197,940	134,036
	197,940	199,036
(b) Revolving credit loan agreement—		
Bank loans	1,900	600
Bankers' acceptances, net of unamortized interest charges	3,995	
	5,895	600
	203,835	199,636

Based on the amounts borrowed under the credit facilities as at December 31, 1986, annual principal repayments over the next five years amount to $738,000 in 1989, $1,918,000 in 1990 and $7,200,000 in 1991.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The Class B preference shares annual dividend of 20% is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profit taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates in the event that dividends accrued are not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1986, calculated at tax rates prevailing as at that date with respect to the Class B shares amount to:

	1986	1985
	(in thousands of dollars)	
Class A preference shares held by Canada Ports Corporation	19,745	12,930
Class B preference shares held by Fednav Limited	46,567	29,764
	66,312	42,694

The results of operations of RTI for the year ended December 31, 1986, in comparison with the year ended December 31, 1985, are as follows:

	1986	1985
	(in thousands of dollars)	
Revenue from operations	28,793	30,855
Operating and administrative expenses	12,408	12,943
Depreciation	6,594	7,212
Interest expense	19,971	20,294
	38,973	40,449
Net loss	(10,180)	(9,594)

CANADA PORTS CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

6. Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority is indebted in the amount of $14,153,000 (1985—$14,257,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, Appropriation Act No. 7, 1967, 1967-68, c. 8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada has, in effect, guaranteed the repayment of both principal and interest on the debentures. Accordingly, the debentures received have been offset against the advances and loans payable to Canada such that they are not reflected as an asset and a liability on the balance sheet. Interest income and expense of $971,000 (1985—$978,000) have been similarly offset and do not appear in the statement of income.

On July 9, 1981, Treasury Board agreed to the transfer of the responsibility for the administration of the indebtedness of Saint John Harbour Bridge Authority as well as the equivalent loan payable to Canada from the accounts of the Corporation to those of Transport Canada. As at December 31, 1986, this transfer had not been completed.

7. Fixed assets

(a) Summary

	1986				1985
	Depreciation rates	Cost	Accumulated depreciation	Net	Net
	%	(in thousands of dollars)			
Land		5,591		5,591	35,647
Dredging	2.5-6.7	9,330	5,101	4,229	5,187
Berthing structures	2.5-10	35,128	17,835	17,293	56,090
Buildings	2.5-10	15,911	11,982	3,929	12,728
Utilities	3.3-10	2,884	1,282	1,602	6,405
Roads and surfaces	2.5-10	2,139	1,706	433	1,729
Machinery and equipment	5-100	18,640	13,598	5,042	6,337
Office furniture and equipment	20	2,161	1,749	412	462
Works under construction		997		997	1,562
		92,781	53,253	39,528	126,147

(b) Capital grants

During the year, the Corporation received capital grants totalling $12,993,000 (1985—$14,127,000) towards the construction of capital projects.

(c) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $232,000, of which most will be expended in the year ending December 31, 1987.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are the following:

	1986	1985
	(in thousands of dollars)	
Deferred revenues	192	749
Current portion of long-term liabilities	70	1,712

9. Financing Provided by a Province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal, Saint John. As at December 31, 1986, both the asset and the remaining debt were transferred to the Saint John Port Corporation.

10. Loans from Canada

	1986	1985
	(in thousands of dollars)	
Loans bearing interest at 6.44% and 9.09% with blended annual principal and interest repayment requirements of $193,000 and maturing on December 31, 2000	1,632	29,362
Deferred interest		4,371
Less: current portion	(70)	(1,712)
	1,562	32,021
Non-interest bearing loans with indefinite due date	17,841	55,609
Accrued interest on loans not due and payable	5,490	15,514
	24,893	103,144

Deferred interest on loans of $19,737,000 for the construction of terminal facilities at the Port of Saint John amounted to $4,371,000 as at December 31, 1985. In 1986, the deferred interest was forgiven by the Minister of Finance and was treated as contributed capital.

Principal repayment requirements over the next five years amount to $70,000 in 1987, $75,000 in 1988, $81,000 in 1989, $87,000 in 1990 and $93,000 in 1991.

11. Contingencies

Claims aggregating approximately $500,000 in respect of lawsuits, guarantees, employee agreements, damage allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

12. Contribution from (to) Canada

In 1982, the Corporation received a contribution from Canada of $20,072,000 for the purchase of shares in Ridley Terminals Inc. The terms and conditions of repayment of the contribution were to be determined by Treasury Board and the Corporation prior to April 1, 1989.

In 1985, Canada requested from various Crown Corporations a portion of cash identified as surplus to their requirements. As part of this cash recovery exercise, a request was made for a contribution of $133,000,000 from the Ports Canada system which, at that time, consisted of the Canada Ports Corporation and the six local port corporations.

The Corporation's share of the contribution, excluding the Port of Saint John's share, was in the amount of $25,661,000 of which $20,072,000 has been applied against Contribution from Canada as authorized by the Minister of Transport. The balance of $5,589,000 has been treated as a Contribution to Canada.

13. Comparative Figures

The 1985 figures have been reclassified in order to conform with this year's presentation.

SUMMARY PAGE

CANADA POST CORPORATION

MANDATE

To operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of Canadians.

BACKGROUND

The *Canada Post Corporation Act* requires the corporation to fulfill its mandate while "improving and extending its products and services," having regard to "the need to conduct its operations on a self-sustaining financial basis." The corporation is also called upon to manage its human resources "in a manner that will both attain the objects of the corporation and ensure the commitment and dedication of its employees." Canada pays subsidies to the corporation in support of the publishing industry, for Northern parcel mails, parliamentary free mail, and blind persons' free mail. The actual operating subsidy today is about 4 per cent of the corporation's operating expenses.

CORPORATION DATA

HEAD OFFICE	Sir Alexander Campbell Building Confederation Heights Ottawa, Ontario K1A 0B1
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Consumer and Corporate Affairs
YEAR AND MEANS OF INCORPORATION	1981; by the *Canada Post Corporation Act* (S.C. 1981, C. 54), proclaimed October 16, 1981.
CHIEF EXECUTIVE OFFICER	Donald H. Lander
CHAIRMAN	Sylvain Cloutier
AUDITOR	Maheu Noiseux and the Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	2,629	2,451	2,370	2,403
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1,598	1,576	1,602	1,645
Cash from Canada in the period				
— budgetary*	232	184	347	306
— non-budgetary	nil	nil	nil	nil

* Budgetary amounts do not include the special payments for cultural and other mails.

CANADA POST CORPORATION

RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for the financial statements and all other information presented in this annual report in accordance with the Financial Administration Act and regulations. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgment.

Management has developed and maintains books of account, records, financial and management control and information systems and management practices. These are designed to provide reasonable assurance that assets are safeguarded and controlled, and transactions are in accordance with the Financial Administration Act and regulations as well as the Canada Post Corporation Act and by-laws of the Corporation. Internal audits are conducted to assess these systems and practices.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through the Audit Committee which is composed of five directors, three of whom are not employees of the Corporation. The Audit Committee meets at least annually to review, and advise the Board of Directors with respect to, the financial statements and the auditors' annual report. The Audit Committee also oversees the internal audit activities of the Corporation and performs such other functions as are assigned to it.

The Corporation's external auditors, the Auditor General of Canada and Maheu Noiseux, examine the financial statements and report to the Minister Responsible for Canada Post Corporation.

AUDITORS' REPORT

TO THE MINISTER RESPONSIBLE FOR CANADA POST CORPORATION

We have examined the balance sheet of Canada Post Corporation as at March 31, 1987 and the statements of equity of Canada, operations and extraordinary restructuring costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Post Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Maheu Noiseux
Chartered Accountants

Ottawa, Canada
June 10, 1987

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1987	1986
Current		
Cash	608,248	481,008
Accounts receivable		
Government of Canada	5,534	9,389
Foreign postal administrations	78,829	80,456
Other	10,298	8,731
Prepaid expenses	37,833	35,821
	740,742	615,405
Fixed (Notes 3 and 8a)		
Land, buildings and equipment	1,913,668	1,800,238
Less: accumulated depreciation	412,829	321,821
	1,500,839	1,478,417
Other		
Deferred employee termination benefits	386,939	357,606
National Postal Museum (Note 4)	1	1
	386,940	357,607
	2,628,521	2,451,429

LIABILITIES AND EQUITY OF CANADA	1987	1986
Current liabilities		
Accounts payable and accrued liabilities		
Government of Canada	140,020	101,510
Foreign postal administrations	6,408	8,511
Other	98,610	63,928
Salaries and benefits	183,186	144,200
Deferred revenues	145,973	133,506
Outstanding money orders	61,362	59,217
Deposits	7,683	7,033
	643,242	517,905
Employee termination benefits (Note 5)	386,939	357,606
EQUITY OF CANADA		
Contributed capital	1,739,388	1,678,218
Accumulated unfunded losses from operations	(102,300)	(102,300)
Accumulated extraordinary restructuring costs, recoverable in future postal rates (Note 6)	(38,748)	
	1,598,340	1,575,918
	2,628,521	2,451,429

Contingent liabilities (Note 7)

Approved by the Board:

SYLVAIN CLOUTIER
Chairman of the Board

DANIEL J. SCANLAN
Chairman, Audit Committee

CANADA POST CORPORATION—*Continued*

STATEMENT OF EQUITY OF CANADA
YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Contributed capital		
At beginning of year	1,678,218	1,677,692
Parliamentary appropriations for capital, extraordinary restructuring costs and special purposes (Note 8a)	61,170	526
At end of year	1,739,388	1,678,218
Accumulated unfunded losses from operations		
At beginning of year	102,300	76,157
Unfunded loss from operations		26,143
At end of year	102,300	102,300
Accumulated extraordinary restructuring costs, recoverable in future postal rates		
At beginning of year		
Additions during the year (Note 6)	38,748	
Amortization for the year		
At end of year	38,748	
Equity of Canada	1,598,340	1,575,918

STATEMENT OF OPERATIONS AND
EXTRAORDINARY RESTRUCTURING COSTS
YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Revenues		
Mail		
Postage	2,500,129	2,340,887
Subsidies on behalf of postal user (Note 8b)	254,093	225,093
	2,754,222	2,565,980
International settlements	136,917	119,387
Post office box rentals	23,019	18,602
Philatelic and retail sales	20,986	21,760
Money order fees	17,273	15,936
Other	17,639	16,009
	2,970,056	2,757,674
Expenses		
Salaries and benefits	2,243,224	2,208,379
Transportation	317,979	306,612
Accommodation	191,170	136,088
Depreciation	85,690	79,534
International settlements	70,175	66,663
Materials and supplies	54,339	45,633
Travel and communications	43,599	35,435
Computer, security and professional services	35,718	32,402
Commissions and fees	28,129	31,293
Rentals, repairs and maintenance	9,936	9,066
Advertising and publications	7,808	7,593
Other	11,270	9,403
	3,099,037	2,968,101
Loss from operations	128,981	210,427
Amortization of extraordinary restructuring costs		
Government funding (Note 8c)	128,981	184,284
Unfunded loss from operations		26,143
Extraordinary restructuring costs, recoverable in future postal rates (Note 6)	38,748	

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Cash from operations		
Loss from operations	(128,981)	(210,427)
Items not requiring cash		
Depreciation	85,690	79,534
Loss on disposal of fixed assets	4,369	883
	(38,922)	(130,010)
Government funding	128,981	184,284
Changes in non-cash working capital items		
Accounts receivable	3,915	(10,495)
Accounts payable and accrued liabilities	71,089	83,414
Deferred revenues	12,467	9,469
Outstanding money orders	2,145	(3,950)
Other	37,624	13,379
	217,299	146,091
Cash for extraordinary restructuring		
Extraordinary restructuring costs, recoverable in future postal rates	(38,748)	
Cash from financing		
Parliamentary appropriations for capital, extraordinary restructuring costs and special purposes	61,170	526
Cash invested		
Land and buildings acquisitions	(42,185)	(15,394)
Equipment acquisitions	(72,828)	(40,529)
	(115,013)	(55,923)
Parliamentary appropriation for special purposes	502	435
Proceeds on disposal of fixed assets	2,030	688
	(112,481)	(54,800)
Cash increase	127,240	91,817
Cash at beginning of year	481,008	389,191
Cash at end of year	608,248	481,008
Represented by		
Cash	549,997	423,696
Money order funds in trust	58,251	57,312

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Incorporation

The Corporation was established by the Canada Post Corporation Act on October 16, 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part I of Schedule C to the Financial Administration Act and is an agent of Her Majesty. The Corporation is exempt from income taxes.

The Canada Post Corporation Act provided that all the property, assets, rights, obligations and liabilities of the Post Office Department be transferred to the Corporation from the Government of Canada.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. A summary of the significant accounting policies of the Corporation follows:

(a) Rate regulation

The Canada Post Corporation Act provides that the Corporation may make regulations prescribing rates of postage that are fair and reasonable so as to provide revenue together with any revenue from other sources, sufficient to defray the costs

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

incurred by the Corporation in the conduct of its operations. The Corporation is required to publish each proposed regulation for interested persons to make representations to the Minister Responsible for the Corporation, who thereafter submits the regulation to the Governor in Council for consideration and subsequent approval or refusal.

With the approval of the Governor in Council, as rate regulator, the Corporation may include certain costs in its future operating cost base for purposes of establishing postal rates at that time. This may result in the deferral of costs which otherwise would be charged to current operations. All such costs are amortized and recovered in future postal rates on the basis specified by the rate regulator.

(b) Fixed assets and depreciation

Land, buildings and equipment transferred from the Government of Canada on October 16, 1981 were recorded at their fair value at that date, determined as follows:

Land	— Market value based on existing use
Buildings	— Depreciated replacement cost
Plant equipment, vehicles, and sales counter and office furniture and equipment	— Depreciated replacement cost or original cost less estimated depreciation

The market value of land and the depreciated replacement cost of buildings transferred by the Government of Canada was determined by independent appraisals. Acquisitions subsequent to October 16, 1981 are recorded at cost.

Minor equipment was recorded at estimated depreciated replacement cost at October 16, 1981. Subsequent additions to the base amount are recorded at cost. Replacement of mailbags and lockboxes are expensed as purchased.

Depreciation is provided on the straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Plant equipment	4 to 30 years
Vehicles (other than passenger and light duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	5 to 20 years
Minor equipment—Street furniture and monotainers	5 to 15 years

Depreciation is provided on the diminishing balance basis at an annual rate of 30 per cent for all passenger and light duty commercial vehicles.

(c) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment.

With the approval of the rate regulator, the Corporation defers the costs of unpaid employee termination benefits accruing to employees until such time as the Corporation becomes self-sustaining (anticipated to be the year ending March 31, 1989). Accordingly, the present value of the projected costs of unpaid employee termination benefits is recorded in the accounts as a long-term liability offset by a deferred charge, since such costs will be recovered from future postal revenues and/or Government funding (Notes 5 and 8c). The deferred costs are amortized and charged to operations on the same basis as the liability is paid and recovered from revenues and/or Government funding.

(d) Revenue recognition

Amounts received for which services have not been rendered prior to the end of the year are deferred.

(e) Parliamentary appropriations

Parliamentary appropriations representing Government contributions are credited to equity of Canada when costs are incurred. However, when capital items are funded under a Government assistance program, the funding is applied to reduce the capital cost. As outlined in Note 8a, unexpended amounts are set up as a current liability due to the Government of Canada.

Parliamentary appropriations representing subsidies on behalf of postal users and Government funding are credited to operations in the year to which they relate, as outlined in Note 8b and c.

(f) Workers' compensation

The Corporation assumes all risks for workers' compensation claims. The estimated costs of such claims, as a result of injuries on duty, are recorded as expenses in the year of injury. All payments for injuries suffered by employees prior to October 16, 1981 are the responsibility of the Government of Canada, since they are the liability of the Department of Labour.

(g) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $96,265,000 (1986—$96,360,000), represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

(h) Extraordinary restructuring costs, to be recovered in future postal rates

The Corporation has undertaken certain programs which form part of a major restructuring of the current postal system to meet specified operating and service performance standards. The costs of these programs are of an unusual, non-recurring and strategic nature.

With the approval of the rate regulator, these costs are to be recovered in future postal rates and, as such, are amortized on a straight-line basis over the ensuing five years. Pending the amortization and recovery of such costs in future postal rates, these costs are reflected in the statement of operations and extraordinary restructuring costs as incurred, and are accumulated as a reduction of the equity of Canada.

In the event that the Corporation determines there is no reasonable assurance that particular amounts will be recovered, such unrecoverable costs will be charged to current operations.

(i) Foreign currency translation

Revenues and expenses relating to transactions with foreign postal administrations are translated into Canadian dollars at the exchange rates at the time of transaction. Amounts due to or from foreign postal administrations at the balance sheet date are translated at the then prevailing exchange rates.

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

Gains or losses arising from translation of foreign currencies are included in operations.

3. Fixed assets

	1987			1986
	Cost or fair value	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	241,704		241,704	237,564
Buildings	1,013,603	195,520	818,083	810,046
Plant equipment	431,095	148,351	282,744	301,103
Vehicles	71,431	35,801	35,630	26,774
Minor equipment				
mail bags and lock boxes	24,325		24,325	27,251
street furniture and monotainers	40,174	12,232	27,942	14,450
Sales counter and office furniture and equipment	91,336	20,925	70,411	61,229
	1,913,668	412,829	1,500,839	1,478,417

4. National Postal Museum

The Corporation operates a museum which contains philatelic material, postal artifacts, a postal library, exhibits that trace the history of the mail and other postal memorabilia. Since these collections, exhibits and books are not for resale and are of undetermined value, they have been recorded at a nominal amount of $1,000.

5. Employee termination benefits

At the time of incorporation on October 16, 1981, the Corporation assumed the liability related to termination benefits which had accrued to employees of the Post Office Department. In addition, the Corporation recognizes in the accounts the liability for benefits accruing to employees of the Corporation since October 16, 1981. The present value of these projected liabilities and the corresponding deferred charge remaining to be amortized and charged to operations at March 31, amounted to:

	1987	1986
	(in thousands of dollars)	
Accumulated to October 16, 1981	240,949	239,643
Accumulated subsequent to October 16, 1981	145,990	117,963
	386,939	357,606

The total charge to operations for employee termination benefits amounted to $15,633,900 (1986 — $29,788,690).

6. Extraordinary restructuring costs, recoverable in future postal rates

During the year, the Corporation incurred costs which contribute to the restructuring of the current postal system to meet specified operating and service performance standards. These costs, totalling $38,748,000, relate to personnel downsizing and developing and implementing management and operating systems, and are to be recovered in future postal rates. These costs will be amortized on a straight-line basis over the next five years.

7. Contingent liabilities

(a) Two complaints have been filed with the Canadian Human Rights Commission, alleging discrimination by the Corporation concerning work of equal value. A settlement with no retroactive effect has been reached with one claimant. The Commission now has this settlement before it for approval. The Commission's investigation of the second complaint is continuing and the outcome is not presently determinable. Settlement, if any, arising from resolutions of these matters, will be recovered in future postal rates (as determined in accordance with the Canada Post Corporation Act) and/or from the Government of Canada.

(b) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and are dependent on future illness. The amount of accumulated sick leave entitlements which will become payable cannot reasonably be determined. Sick leave benefits are expensed as paid.

8. Parliamentary appropriations

(a) Parliamentary appropriations for capital, extraordinary restructuring costs and special purposes

The Government of Canada provides contributions towards the acquisition of fixed assets and the extraordinary restructuring costs in the form of a parliamentary appropriation for capital and extraordinary cost requirements. In previous years, the Corporation also received appropriations for other special purposes. Appropriations have been allocated as follows:

	1987	1986
	(in thousands of dollars)	
Unexpended balance at beginning of year	2,261	2,492
Parliamentary appropriations		
Capital and extraordinary cost requirements	103,000	
Special purposes		730
Total available	105,261	3,222
Credited to		
Equity of Canada		
Capital and extraordinary restructuring costs	59,963	
Special purposes	1,207	526
Fixed asset acquisitions (Government assistance)	502	435
Expended during the year	61,672	961
Unexpended balance at end of year (in current liabilities)	43,589	2,261

(b) Subsidies on behalf of postal users

The Government of Canada provides assistance to the publishing industry by making payments which compensate the Corporation for reduced postal revenue from that source. In accordance with Government policy, the Corporation also receives compensation to subsidize postal rates for government free mail, literature for the blind and northern air stage services. Subsidies received are as follows:

	1987	1986
	(in thousands of dollars)	
Department of Consumer and Corporate Affairs	199,000	170,000
Department of Communications	55,093	55,093
	254,093	225,093

It is anticipated that where Government policy requires the Corporation to provide postal services at rates less than cost, the Corporation will continue to receive subsidies as compensation for foregone postage revenue.

CANADA POST CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

(c) Government funding

The Canada Post Corporation Act provides that where the annual revenues of the Corporation are insufficient to permit the Corporation to pay all its operating and income charges, the amount of the insufficiency shall be included in the form of a deficit appropriation in the next Estimates laid before Parliament.

By arrangement with the Government of Canada, the annual deficit appropriation in respect of the loss from operations is $128,981,000 (1986 — $184,284,000).

9. Lease commitments

The Corporation leases certain facilities under operating leases which expire at various dates between 1988 and 2001. The Corporation's future minimum rental payments required under operating leases that have terms in excess of one year, are as follows:

	(in thousands of dollars)
1988	32,883
1989	28,561
1990	22,421
1991	16,759
1992	13,357
1993 to 2001	31,013
	144,994

10. Related party transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

(a) Property management

The Corporation has a property management arrangement with the Department of Public Works to manage substantially all the Corporation's real property. Operating, maintenance, leasing and other accommodation costs including grants in lieu of taxes, incurred by the Department of Public Works, plus a management fee charged to operations amounted to $176,200,000 (1986—$130,840,000 excluding grants in lieu of taxes). Rental income from third parties of $10,130,000 (1986—$6,320,000) is included in other revenues. Capital expenditures including a management fee amounted to $31,240,000 (1986—$13,270,000).

(b) Financing

At the present time, the Corporation's receipts are deposited to the credit of the Corporation in the Consolidated Revenue Fund of the Government of Canada and its expenditures are paid out of the amounts held to its credit in this Fund. Where, at any time, the available revenues of the Corporation are not sufficient to pay all the operating and income charges as and when due, the Minister of Finance may, with approval, place at the disposal of the Corporation such amounts as may be required to enable the Corporation to meet all such charges. The Corporation is not charged interest, nor does it receive interest, on its balance in the Consolidated Revenue Fund.

(c) Money orders

Funds received from the issue of money orders are held in trust to the credit of the Corporation in the Consolidated Revenue Fund of the Government of Canada until required for redemption of the money orders and/or settlement with foreign postal administrations. Interest is not received on the funds on deposit, nor is there a charge by the Government of Canada for expenses relating to the redemption of money orders.

(d) Other

In the normal course of business, the Corporation enters into various other transactions, such as the provision of postal services and the purchase of air and rail transportation, with the Government of Canada, its agencies and other Crown corporations.

11. Labour negotiations

Labour agreements between the Corporation and all of its bargaining units have expired. Negotiations, begun prior to expiry dates, are in progress.

SUMMARY PAGE

CANADIAN ARSENALS LIMITED

MANDATE

To provide an industrial base to fulfill the requirements of Canada's national defence for large calibre ammunition and complimentary products, with the assistance of the private sector to every extent possible.

BACKGROUND

The corporation's initial responsibilities had been the rationalization and the scaling-down of operations and facilities used in World War II and in the Korean conflict. Its only large purchaser was the Department of National Defence and its selling prices were related to its costs. *The Canadian Arsenals Limited Divestiture Authorization Act* was proclaimed on May 1, 1986 and on May 9, the corporation was sold for $92.2 million to the SNC Group.

CORPORATION DATA

STATUS	Sold to private sector interests
YEAR AND MEANS OF INCORPORATION	1945; by letters patent - under Part I, *Companies Act* 1934. Continued under the *Canada Business Corporations Act*, October 20, 1980.

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	135.9	126.0	88.9	83.5
Obligations to the private sector	11.5	11.0	1.7	0.2
Obligations to Canada	4.7	4.7	4.7	4.7
Equity of Canada	62.0	52.7	43.9	38.2
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

CANADIAN ARSENALS LIMITED

(Since the audited financial statements are not available in English, here is the French version)

RAPPORT DES VÉRIFICATEURS

AUX ADMINISTRATEURS DE
LES ARSENAUX CANADIENS LIMITÉE

Nous avons vérifié le bilan de Les Arsenaux Canadiens limitée au 9 mai 1986 ainsi que les états des résultats et des bénéfices non répartis, du surplus d'apport et de l'évolution de la situation financière pour l'exercice de six semaines terminé à cette date. Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues, et a comporté par conséquent les sondages et autres procédés que nous avons jugés nécessaires dans les circonstances.

La Société impute l'amortissement des immobilisations cédées par le Canada au surplus d'apport plutôt qu'aux résultats, puisque le Canada ne reconnaît pas cet amortissement comme un élément de coût lors de la négociation des prix de vente. À cet égard, les états financiers ne sont pas conformes aux principes comptables généralement reconnus. Si l'on avait imputé cet amortissement aux résultats, le bénéfice net pour l'exercice aurait été inférieur de $215,287 et le solde des bénéfices non répartis et du surplus d'apport aurait été respectivement inférieur et supérieur de $9,843,810.

À notre avis, à l'exception des effets de la non-comptabilisation de l'amortissement aux résultats indiqués au paragraphe précédent, ces états financiers présentent fidèlement la situation financière de la Société au 9 mai 1986 ainsi que les résultats de son exploitation et l'évolution de sa situation financière pour l'exercice de six semaines terminé à cette date selon les principes comptables généralement reconnus, appliqués de la même manière qu'au cours de l'exercice précédent.

Comptables agréés
Maheu Noiseux

Montréal, le 2 juillet 1986

BILAN AU 9 MAI 1986

ACTIF	1986
	$
À court terme	
Encaisse	407,602
Bon du trésor, au coût	10,941,489
Débiteurs	
Canada	16,729,624
Autres	548,594
Facturation proportionnelle des fournisseurs	1,508,651
Stocks (note 3)	62,552,457
Frais imputables au prochain exercice	158,366
	92,846,783
Immobilisations (note 4)	43,308,940
Frais reportés (note 5)	4,007,587
	140,163,310

PASSIF	1986
	$
À court terme	
Créditeurs	22,838,675
Facturation proportionnelle aux clients	
Canada	38,150,086
Autres	1,459,762
Montant dû au Canada (note 6)	4,724,941
Portion à court terme de l'obligation découlant de contrats de location-acquisition (note 7)	2,375,474
	69,548,938
À long terme (note 7)	9,072,614
	78,621,552
AVOIR DU CANADA	
Capital-actions (note 8)	30
Surplus d'apport	14,530,379
Bénéfices non répartis	47,011,349
	61,541,758
	140,163,310

Nom du Conseil d'administration:

Administrateur
LAURENT BERGERON

Administrateur
JEAN-PAUL GOURDEAU

CANADIAN ARSENALS LIMITED—*Continued*

ÉTAT DES RÉSULTATS ET DES BÉNÉFICES NON RÉPARTIS POUR L'EXERCICE DE SIX SEMAINES TERMINÉ LE 9 MAI 1986

	1986
	$
Ventes (note 10)	4,562,352
Coût des produits vendus	3,471,030
Bénéfice brut	1,091,322
Autres revenus	44,965
	1,136,287
Dépenses d'administration	1,267,358
Frais de financement, dette à long terme	135,341
	1,402,699
Perte nette	(266,412)
Bénéfices non répartis au début de l'exercice	47,277,761
Bénéfices non répartis à la fin de l'exercice	47,011,349

ÉTAT DU SURPLUS D'APPORT POUR L'EXERCICE DE SIX SEMAINES TERMINÉ LE 9 MAI 1986

	1986
	$
Solde au début de l'exercice	14,745,666
Immobilisations cédées par le Canada	
Amortissement (note 5)	(215,287)
Solde à la fin de l'exercice	14,530,379

ÉTAT DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE POUR L'EXERCICE DE SIX SEMAINES TERMINÉ LE 9 MAI 1986

	1986
	$
Activités d'exploitation	
Perte nette	(266,412)
Postes n'affectant pas l'encaisse	
Amortissement des frais reportés	100,379
Amortissement des immobilisations	144,472
	(21,561)
Variation nette des postes hors caisse du fonds de roulement concernant l'exploitation	(1,652,897)
Encaisse utilisée pour des activités d'exploitation	(1,674,458)
Activités d'investissement	
Acquisition d'immobilisations	(330,234)
Produit de l'aliénation d'immobilisation	2,025
Augmentation des frais reportés	(14,151)
Encaisse utilisée pour des activités d'investissement	(342,360)
Activités de financement	
Remboursement des obligations découlant de contrats de location-acquisition	(30,346)
Encaisse utilisée pour des activités de financement	(30,346)
Diminution de l'encaisse	(2,047,164)
Encaisse au début de l'exercice	2,454,766
Encaisse à la fin de l'exercice	407,602

NOTES COMPLÉMENTAIRES AU 9 MAI 1986

1. Statut et activités

Les Arsenaux Canadiens limitée, constituée le 20 septembre 1945 et continuée en vertu de la Loi sur les sociétés commerciales canadiennes, est une Société d'État inscrite présentement à la partie I de l'annexe C de la Loi sur l'administration financière.

La Société manufacture des munitions de moyen et gros calibres ainsi que des produits militaires complémentaires.

2. Conventions comptables importantes

a) Immobilisations et amortissement

Les immobilisations achetées ou acquises par le biais de contrats de location-acquisition sont comptabilisées au prix coûtant. Celles cédées par le Canada au cours de l'exercice terminé le 31 mars 1982 sont comptabilisées à leur coût de reconstitution actuel à cette date qui a été établi par le ministère des Travaux publics en ce qui concerne les biens immeubles, et une firme d'évaluateurs indépendants en ce qui concerne les biens meubles. Les dépenses, qui augmentent de beaucoup la valeur des biens ou qui en prolongent la durée d'utilisation, sont capitalisées. Les dépenses courantes d'entretien, de réparation et de renouvellement sont imputées aux résultats de l'exercice au cours duquel elles sont engagées.

Les immobilisations en service sont amorties d'après la méthode de l'amortissement linéaire, à des taux établis selon la durée estimative d'utilisation des biens, sauf celles de la division St-Augustin acquises par le biais de contrats de location-acquisition qui sont amorties d'après la méthode de l'amortissement à intérêts composés (dotation croissante) afin de tenir compte des modalités d'un contrat de vente à long terme et ainsi assurer l'appariement des revenus et des dépenses. L'amortissement des immobilisations achetées ou acquises par le biais de contrats de location-acquisition est imputé aux résultats de l'exercice. L'amortissement des immobilisations cédées par le Canada est imputé au surplus d'apport puisque le Canada ne reconnaît pas cet amortissement comme un élément de coût lors de la négociation des prix de vente.

b) Stocks

Les matières premières et les fournitures sont évaluées au moindre du prix coûtant et du coût de remplacement au Canada. Les contrats en voie de fabrication et les produits finis sont évalués au moindre du prix coûtant et de la valeur nette de réalisation.

Les achats de brevets et de licences, d'outillage de fabrication ainsi que les frais de développement engagés pour le compte de clients sont imputés aux stocks et sont portés au coût des produits vendus au moment de la vente.

c) Frais reportés

Les frais de démarrage de la division St-Augustin sont amortis d'après la méthode de l'amortissement linéaire sur la période de cinq ans commençant le 1er avril 1985, la date du début de la production commerciale.

Les frais de développement de nouveaux produits sont amortis d'après la méthode de l'amortissement linéaire sur une période de trois ans à compter du début de la fabrication du produit à l'échelle commerciale ou sont radiés lorsque la commercialisation du produit est improbable.

CANADIAN ARSENALS LIMITED—*Continued*

NOTES COMPLÉMENTAIRES
AU 9 MAI 1986—*Suite*

d) Constatation du bénéfice

Les ventes sont constatées au moment de la livraison de biens et de leur acceptation par le client, selon les dispositions des contrats de vente, et lorsque la Société a acquis un droit inconditionnel au paiement complet. Elles sont comptabilisées à des prix fermes ou, les cas échéants, à des prix qui tiennent compte des clauses d'échelles mobiles prévues dans les contrats. Dans ces derniers cas, les prix définitifs demeurent cependant sujets à négociation entre la Société et ses clients et tout redressement final est comptabilisé sur une base courante.

e) Régime de retraite

Les employés participent au régime de retraite administré par le gouvernement du Canada. Les employés et la Société partagent également le coût du régime. Cette contribution représente la responsabilité totale de la Société. Les contributions, pour services courants et pour services antérieurs admissibles, sont imputées aux résultats de l'exercice au cours duquel les paiements sont effectués.

f) Prestations d'ancienneté

Les employés ont droit depuis le 1er avril 1985 à des prestations d'ancienneté, payables à leur gré, égales aux prestations de cessation d'emploi impayées auxquelles ils avaient droit en vertu de leurs conventions collectives et leurs conditions d'emploi en vigueur le 31 mars 1985. Toute augmentation dans la valeur de ces prestations est imputée aux résultats de l'exercice au cours duquel elle est gagnée par les employés et la valeur des prestations impayées est comprise dans les créditeurs.

3. Stocks

	$
Matières premières et fournitures	3,036,761
Contrats en voie de fabrication	50,678,413
Produits finis	5,099,266
Frais de développement	890,424
Brevets et licences	229,198
Outillage de fabrication	2,618,395
	62,552,457

L'outillage de fabrication représente une estimation du montant que la Société entend recevoir en vertu d'un contrat de vente à long terme.

Cet outillage de fabrication comprend de l'outillage détenu en vertu d'un contrat de location-acquisition à un coût de $2,044,342. La Société remboursera l'obligation découlant de ce contrat au moment de la vente de cet outillage.

4. Immobilisations

	Valeur comptable	Amortissement accumulé	Coût non amorti
	$	$	$
Terrains	1,612,025		1,612,025
Bâtiments et aménagement	23,253,800	3,817,031	19,436,769
Équipement	24,430,101	6,836,832	17,593,269
Mobilier et équipement de bureau	2,988,884	1,114,344	1,874,540
Matériel roulant	736,821	336,453	400,368
Immobilisations en cours	2,391,969		2,391,969
	55,413,600	12,104,660	43,308,940

Les immobilisations comprennent celles détenues en vertu de contrats de location-acquisition à un coût de $11,986,605 et $523,465 à titre d'amortissement accumulé.

L'amortissement des immobilisations achetées ou acquises par le biais de contrats de location-acquisition, imputé aux résultats, est de $144,472. L'amortissement des immobilisations cédées par le Canada, imputé au surplus d'apport est de $215,287.

Les durées utiles prévues pour chacune des principales catégories d'immobilisations aux fins du calcul de l'amortissement sont les suivantes:

	Nombre d'années
Bâtiments et aménagements	20 à 40
Équipement	10 à 15
Mobilier et équipement de bureau	5 à 10
Matériel roulant	3 à 10

5. Frais reportés

	$
Frais de démarrage de la division St-Augustin, au coût non amorti	1,588,040
Frais de développement de nouveaux produits, au coût non amorti	2,419,547
	4,007,587

6. Montant dû au Canada

	$
Solde de crédits parlementaires	1,224,941
Emprunts du gouvernement du Canada, sans intérêt et sans mode prévu de remboursement	3,500,000
	4,724,941

7. Dette à long terme

	$
Obligations découlant de contrats de location-acquisition remboursables jusqu'au 1er mars 2001 par versements mensuels à un taux d'intérêt calculé à ½% au dessus du taux d'intérêt demandé par le bailleur sur ses billets garantis	11,448,088
Versements échéant au cours du prochain exercice	2,375,474
	9,072,614

La valeur actuelle de l'obligation découlant de contrats de location-acquisition est déterminée comme suit:

Versements à effectuer au cours des exercices:

	$
1987	3,335,822
1988	1,250,731
1989	1,248,733
1990	1,241,044
1991	1,240,635
1992 et par la suite	12,025,999
	20,342,964
Moins: portion représentant les intérêts à des taux variables qui seront imputés aux résultats des exercices auxquels ils s'appliquent	8,894,876
	11,448,088

CANADIAN ARSENALS LIMITED—*Continued*

NOTES COMPLÉMENTAIRES
AU 9 MAI 1986—*Fin*

8. Capital-actions

Autorisé	1,000 actions sans valeur nominale
Émis et entièrement libéré	30 actions
Payé	$30

9. Ventes

Les ventes au gouvernement du Canada, au cours de l'exercice terminé le 9 mai 1986, se chiffrent à $4,199,409 soit 92,0% du chiffre d'affaires de la Société.

10. Représentants et agents commerciaux

Au cours de l'exercice, la Société a versé $576 à titre de rémunération et de dépenses aux représentants et agents commerciaux suivants: Cormorant Limited, Pakistan; Matren Ltd, Grèce; Seri Mechan Products Sdn Bhd, Malaisie; Unicorn International Pte Ltd, Singapour; Vetecin S.A., Vénézuela; S. Kittivat, Thaïlande; Ubem Ltd, Turquie et Donald Kimmel, États-Unis.

11. Engagements

Au 9 mai 1986, le coût estimatif pour compléter les projets en immobilisations prévus et en cours s'élève à environ $1,770,000 pour lesquels la Société a des engagements contractuels au montant d'environ $690,000.

12. Licence pour fabrique d'explosifs

Le ministère de l'Énergie, Mines et Ressources n'a renouvelé la licence pour la fabrique d'explosifs dans un secteur particulier de l'usine de la Société que jusqu'au 31 août 1986. Un programme de modernisation, qui comporte des dépenses en immobilisations d'environ 24 millions de dollars étalées sur les trois prochaines années, au niveau actuel de production, a été proposé en vue de satisfaire les exigences du Ministère. La direction s'attend à ce que cette licence soit renouvelée avant son expiration.

13. Événements subséquents

a) Privatisation de la Société

Le 24 avril 1986, le Parlement a adopté une Loi visant à autoriser l'aliénation de la Société Les Arsenaux Canadiens limitée et visant la modification d'autres lois en conséquence, laquelle a reçu la sanction royale le 1er mai 1986. En vertu de cette Loi, le ministre des Approvisionnements et Services est autorisé à vendre, aux conditions que le gouverneur en conseil approuve, toutes ou une partie des actions de la Société détenues en fiducie pour le compte de Sa Majesté. Pour la réalisation de cette vente, les biens et les droits de Sa Majesté utilisés pour l'exploitation avant l'entrée en vigueur du paragraphe 3(2) de la Loi sont transférés à la Société, sauf ceux soustraits par décret du gouverneur en conseil.

Une entente a été signée en date du 9 mai 1986 pour la vente de toutes les actions en circulation de la Société à les Produits de Défense SNC inc. pour une contrepartie au comptant de $87,500,000 et pour le remboursement au Canada de ses prêts à la Société d'environ $4,725,000.

b) Fusion

Le 12 mai 1986, la Société et les Produits de Défense SNC inc. se sont regroupés sous la raison sociale Les Arsenaux Canadiens limitée. À cette date, les Produits de Défense SNC inc. a pour principal actif le placement dans Les Arsenaux Canadiens limitée, un passif d'environ $62,765,000 et un avoir des actionnaires de $30,000,000.

c) Émission d'actions

Le 23 mai 1986, la Société résultante de la fusion a reçu un certificat de modification de ses statuts autorisant la création d'un nombre illimité d'actions privilégiées; 10% non cumulatif de la valeur de rachat, non participantes, sans droit de vote, rachetables à un montant égal à la juste valeur marchande de la contrepartie reçue lors de l'émission, sans valeur nominale.

Le 3 juin 1986, cette Société a émis une (1) action privilégiée et a reçu en contrepartie un montant de $57,000,000 et le 4 juin 1986, elle a procédé au rachat de cette action pour le même montant.

14. Chiffres comparatifs

Les chiffres comparatifs n'ont pas été présentés parce que les chiffres de la période de six (6) semaines de l'exercice précédent ne sont pas disponibles.

CANADIAN ARSENALS LIMITED—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF SUPPLY AND SERVICES

I have examined the balance sheet of Canadian Arsenals Limited as at March 31, 1986 and the statements of income and retained earnings, contributed surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

The Corporation charges depreciation of fixed assets transferred from Canada to contributed surplus rather than to operations, on the grounds that Canada does not recognize such depreciation as an element of cost when negotiating sales prices. In this respect, the financial statements are not in accordance with generally accepted accounting principles. If depreciation had been charged to operations, net income for the year would have been decreased by $2,159,117 ($2,358,582 in 1985) and the closing balances of retained earnings and contributed surplus would have been decreased and increased by $9,628,523 ($7,469,406 in 1985) respectively.

In my opinion, except for the effects of the failure to charge depreciation to operations as described in the preceding paragraph, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, as well as the charter and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 9, 1986

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	2,454,766	5,108,538
Accounts receivable		
Canada	32,358,796	20,719,759
Others	324,242	3,488,745
Progress billings from suppliers	3,431	5,346,606
Inventories (Note 3)	53,317,061	42,375,959
	88,458,296	77,039,607
Fixed (Note 4)	43,340,490	44,894,652
Deferred charges (Note 5)	4,093,815	4,499,439
	135,892,601	126,433,698

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable	23,335,144	22,125,780
Progress billings to customers		
Canada	32,765,393	33,757,484
Others	1,565,232	527,686
Due to Canada (Note 6)	1,224,941	1,224,941
Current portion of obligation under capital leases (Note 7)	2,380,963	50,090
	61,271,673	57,685,981
Long-term (Note 7)	12,597,471	15,892,674
	73,869,144	73,578,655
EQUITY OF CANADA		
Capital stock (Note 8)	30	30
Contributed surplus	14,745,666	16,904,783
Retained earnings	47,277,761	35,950,230
	62,023,457	52,855,043
	135,892,601	126,433,698

Approved by the Board:

LAURENT A. BERGERON
Director

JEAN-PAUL GOURDEAU
Director

CANADIAN ARSENALS LIMITED—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Sales (Note 9)	128,025,132	103,752,140
Cost of goods sold	103,437,143	84,439,498
Gross profit	24,587,989	19,312,642
Other income	504,308	726,788
	25,092,297	20,039,430
Administrative expenses	12,633,104	8,721,357
Financing costs	1,131,662	19,804
	13,764,766	8,741,161
Net income for the year	11,327,531	11,298,269
Retained earnings at beginning of the year	35,950,230	24,651,961
Retained earnings at end of the year	47,277,761	35,950,230

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	16,904,783	19,263,365
Fixed assets transferred from Canada		
Depreciation	(2,159,117)	(2,358,582)
Balance at end of the year	14,745,666	16,904,783

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
	$	$
Operating activities		
Net income for the year	11,327,531	11,298,269
Items not affecting cash		
Depreciation of fixed assets	1,376,835	599,259
Amortization of deferred charges		
—Development costs	905,302	633,163
—Start-up costs	407,575	
Increase (decrease) in the provision for employee termination benefits		232,556
	14,017,243	12,763,247
Net change in non-cash working capital balances related to operations	14,246,116	(2,267,368)
Cash provided by (used in) operating activities	(228,873)	10,495,879
Investing activities		
Acquisition of fixed assets	(2,044,429)	(13,765,490)
Increase in deferred charges	(907,253)	(4,480,777)
Proceeds from disposal of fixed assets	62,639	
Cash used in investing activities	(2,889,043)	(18,246,267)
Financing activities		
Advances under leasing agreement	905,327	9,348,464
Reimbursement of obligation under capital leases	(441,183)	(60,186)
Cash provided by financing activities	464,144	9,288,278
Increase (decrease) in cash during the year	(2,653,772)	1,537,890
Cash at beginning of the year	5,108,538	3,570,648
Cash at end of the year	2,454,766	5,108,538

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1986

1. Authority and activities

Canadian Arsenals Limited, incorporated on September 20, 1945 and continued under the Canada Business Corporations Act, is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

The Corporation manufactures medium and large caliber ammunitions and other complementary military products.

2. Significant accounting policies

(a) Fixed assets and depreciation

Fixed assets acquired by purchase or by way of capital leases are recorded at cost. Fixed assets transferred from Canada during the year ended March 31, 1982 are recorded at their current reproduction cost as at that date as determined by the Department of Public Works for immoveable assets and a firm of independent appraisers for moveable assets. Expenditures which significantly increase the value or extend the useful lives of fixed assets are capitalized. Routine expenditures for maintenance, repairs and renewals are charged against income as incurred.

Depreciation of fixed assets in service is calculated at rates based on the estimated useful lives of the assets using the straight-line method except for that of fixed assets at the St-Augustin division acquired by way of capital leases, which is calculated using the sinking fund method to take into account the terms of a long-term sales contract and thus match revenues and expenses.

Depreciation of fixed assets acquired by purchase or by way of capital leases is charged to operations. Depreciation of fixed assets transferred from Canada is charged to contributed surplus on the grounds that Canada does not recognize it as an element of cost when negotiating sales prices.

(b) Inventories

Raw materials and supplies are stated at the lower of cost and replacement cost in Canada. Work in process and finished goods are stated at the lower of cost and net realizable value.

Costs of patents and licences purchased and development costs incurred for customers' accounts are included in inventories and are charged to cost of goods sold at time of sale.

(c) Deferred charges

Development costs of new products are amortized using the straight-line method over three years from the start of commercial production of the related product or are written-off when the product is unlikely to be saleable.

Start-up costs of the St-Augustin division are amortized using the straight-line method over the five year period from April 1, 1985, the starting date of commercial production.

(d) Revenue recognition

Sales are recognized as goods are delivered and accepted in accordance with contractual agreements and the right to full payment has become unconditional. They are recorded at firm prices or, where applicable, at prices which take into account effects of cost escalation clauses contained in sales contracts. In the latter condition, definitive prices are nevertheless subject to negotiation between the Corporation and its customers and all final adjustments are recorded on a current basis.

CANADIAN ARSENALS LIMITED—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Continued*

(e) Seniority benefits

Employees are entitled since April 1, 1985 to seniority benefits, payable on request, equal to the unpaid termination benefits to which they were entitled on March 31, 1985 under their collective agreements and their conditions of employment. Any increase in the value of these benefits is expensed in the year in which it is earned by the employees and the value of unpaid benefits is included in accounts payable.

(f) Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and of admissible past service are expensed when paid.

3. Inventories

	1986	1985
	$	$
Raw materials	32,103,518	27,442,036
Work in process	17,665,683	12,483,802
Finished goods	157,032	655,861
Development costs	668,175	1,287,494
Patents and licences	229,198	506,766
Production tooling	2,493,455	
	53,317,061	42,375,959

Production tooling constitutes the estimated amount that the Corporation expects to receive under a long-term sales contract in respect of the following:

	$
Base level production tooling	1,563,380
Replacement production tooling less provision for wear	487,435
Wear and maintenance of production tooling	442,640
	2,493,455

Negotiations are underway to determine the terms for the recovery of these items. Any difference between the recorded amounts and those that shall be received, which may not be determined with accuracy at the time of preparation of these financial statements, shall be accounted for when known.

Production tooling includes tooling held under a capital lease with a cost of $2,044,342. The Corporation shall reimburse the obligation under this lease upon the sale of this tooling.

4. Fixed assets

	1986			1985
	Recorded value	Accumulated depreciation	Net	Net
	$	$	$	$
Land	1,612,025		1,612,025	1,412,025
Buildings and surface installations	23,229,943	3,712,129	19,517,814	15,075,640
Equipment	24,191,872	6,577,504	17,614,368	7,783,403
Office furniture and equipment	2,841,543	1,070,257	1,771,286	1,475,450
Rolling stock	736,821	326,836	409,985	369,650
Construction in progress	2,415,012		2,415,012	18,778,484
	55,027,216	11,686,726	43,340,490	44,894,652

Fixed assets include those held under capital leases, with a cost of $10,367,075 and accumulated depreciation of $431,712 ($10,458,228 and $205,034 as at March 31, 1985).

Depreciation of fixed assets acquired by purchase or by way of capital leases, amounting to $1,376,835 ($599,259 in 1985), has been charged to operations. Depreciation of fixed assets transferred from Canada, amounting to $2,159,117 ($2,358,582 in 1985, including $162,291 as a loss on disposal of fixed assets) has been charged to contributed surplus.

The estimated useful lives of the principal classes of fixed assets for purposes of calculating depreciation are as follows:

	Number of years
Buildings and surface installations	20 to 40
Equipment	10 to 15
Office furniture and equipment	5 and 10
Rolling stock	3 to 10

5. Deferred charges

	1986	1985
	$	$
Start-up costs of the St-Augustin division	1,630,496	2,038,070
New products development costs	2,463,319	2,461,369
	4,093,815	4,499,439

Research and development costs charged to operations amounted to $4,315,831 ($2,229,747 in 1985).

6. Due to Canada

The amount due to Canada represents remaining balances of parliamentary appropriations.

7. Long-term liabilities

	1986	1985
	$	$
Obligation under capital leases	11,478,434	112,691
Loan from Canada	3,500,000	3,500,000
Provision for employee termination benefits		1,638,474
Advances under leasing agreement		10,901,599
	14,978,434	16,152,764
Less: current portion of the provision for employee termination benefits included in accounts payable		210,000
current portion of obligation under capital leases	2,380,963	50,090
	12,597,471	15,892,674

Advances received under a leasing agreement and interest thereon were converted during the year to capital leases.

The obligation under these contracts carries interest at the rate of 0.5% per annum over the lessor's guaranteed note rate of the term not exceeding 60 months selected by the Corporation. This obligation is repayable by March 1, 2001 by monthly instalments. In anticipation of the change in the voting control of the Corporation resulting from its privatization described in Note 12, the lessor and the Corporation have agreed to renegociate certain provisions of the leasing agreement by December 31, 1986, to the satisfaction of the lessor who shall otherwise be entitled to exercise the rights and remedies already provided in its favour in the leasing agreement.

CANADIAN ARSENALS LIMITED—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986—*Concluded*

The present value of the obligation under all capital leases at March 31, 1986 has been determined as follows:

Payments to be made in subsequent years:

	$
1987	3,344,163
1988	1,250,727
1989	1,248,729
1990	1,241,040
1991	1,240,632
1992 and subsequent years	12,129,408
	20,454,699
Less: portion thereof representing interest at variable rates to be charged to operations in the years to which it applies	8,976,265
	11,478,434

The loan from Canada, to provide working capital, does not bear interest and has no fixed repayment date.

8. Capital stock

Authorized	1,000 shares without par value
Issued and fully paid	30 shares
Paid-up	$30

9. Sales

Sales to Canada during the year ended March 31, 1986 amounted to $119,838,229 or 93.6% of the Corporation's sales ($95,516,433, or 92.1% in 1985).

Sales to Canada include $7,699,438 ($3,355,123 in 1985) for sales at cost of purchased goods.

10. Sales agents and representatives

During the year, the Corporation paid $13,257 ($76,066 in 1985) as remuneration and expenses to the following sales agents and representatives: Cormorant Limited, Pakistan; Matren Ltd., Greece; Seri Mechan Products Sdn Bhd, Malaysia; Unicorn International Pte Ltd., Singapore; Vetecin S.A., Venezuela; Holland Arma B.V., Holland; S. Kittivat, Thailand; Ubem Ltd., Turkey; Byron, United States and Donald Kimmel, United States.

11. Licence for manufacturing of explosives

The Department of Energy, Mines and Resources has renewed the licence for manufacturing explosives in a specific section of the Corporation's plant only to August 31, 1986. An upgrading program involving capital expenditures of approximately $24 million over the next three years, at the current level of production, has been proposed to satisfy the requirements of the Department. Management expects that this licence will be renewed prior to its expiry.

12. Privatization of the Corporation

On April 24, 1986, Parliament passed an Act to authorize the divestiture of Canadian Arsenals Limited and to amend other Acts in consequence thereof, which received the Royal Assent on May 1, 1986. Under this Act, the Minister of Supply and Services is authorized to sell, on such terms and conditions as are approved by the Governor in Council, any or all of the shares of the Corporation held in trust for Her Majesty. For the purposes of effecting this sale, all property, rights and interests of Her Majesty used in the business immediately prior to the coming into force of Subsection 3(2) of the Act are transferred to the Corporation, except those exempted by order of the Governor in Council.

An agreement has been made as at May 9, 1986 for the sale of all the outstanding shares of the Corporation to SNC Defence Products Inc. for a cash consideration of $87,500,000 and for the reimbursement to Canada of its loans to the Corporation of $4,725,000.

SUMMARY PAGE

CANADIAN BROADCASTING CORPORATION

MANDATE

Develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and provide an international service.

BACKGROUND

Established in 1936 by the *Broadcasting Act*; major amendments were made to this Act in 1958 and 1968. In May 1985, the government appointed a task force to review broadcasting in Canada. Its report was presented in 1986 and is being considered by the government. *The Broadcasting Act* is currently under study and revisions are contemplated.

CORPORATION DATA

HEAD OFFICE	1500 Bronson Avenue P.O. Box 8478 Ottawa, Ontario K1G 3J5
STATUS	— an agent of Her Majesty — exempt from Divisions I to IV of Part XII of the *Financial Administration Act;* subject to Part VIII of this Act as it read immediately before the 1984 repeal thereof
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1936, by *the Broadcasting Act* (R.S.C. 1970, B-11)
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	The Honourable Pierre Juneau, P.C., O.C.
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86 (restated)	1984-85	1983-84
At the end of the period				
Total Assets	755	731	691	639
Obligations to the private sector	1	nil	nil	nil
Obligations to Canada	33	33	33	33
Equity of Canada	461	448	413	381
Cash from Canada in the period				
— budgetary	855	857	905	815
— non-budgetary	nil	nil	nil	nil

CANADIAN BROADCASTING CORPORATION

AUDITOR'S REPORTS

TO THE CANADIAN BROADCASTING CORPORATION
AND
THE MINISTER OF COMMUNICATIONS

1987 AUDITOR'S REPORT

I have examined the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1987 and the statements of income and expense and reconciliation to government funding basis, proprietor's equity account and cash flow for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As explained in Note 13, the Corporation has addressed the matters that had prevented the maintenance of proper books of account. In my opinion, proper books of account had been re-established by March 31, 1987, and the March 31, 1987 financial statements are in agreement therewith, and the transactions that have come to my notice during my current examination have, in all significant respects, been in accordance with the former Part VIII of the Financial Administration Act and regulations as they apply to the Corporation, the Broadcasting Act and the by-laws of the Corporation.

1986 AUDITOR'S REPORT (REVISED)

In my report dated August 19, 1986, I denied an audit opinion on the March 31, 1986 financial statements and did not report on compliance with authority because it was impracticable to complete my audit. As discussed in Note 13, the Corporation subsequently restated the March 31, 1986 financial statements. I have examined the 1986 restated amounts, except that it remains impracticable to verify whether the restated expense amounts are properly classified among the various expense categories. As a result, I am now able to express the following opinion on the 1986 restated financial statements. In my opinion, except for the effect of adjustments, if any, regarding the classification of expense amounts on the restated statement of income and expense and reconciliation to government funding basis, the restated financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 19, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986 Restated (Note 13)
Current		
Cash	11,932	17,714
Accounts receivable	70,020	65,666
Engineering and production supplies and merchandise	12,544	11,808
Programs completed and in process of production	84,125	76,862
Prepaid film and script rights and other expenses	23,172	20,870
	201,793	192,920
Investments (Note 3)	557	4,521
Fixed (Note 4)	552,224	533,059
	754,574	730,500

LIABILITIES	1987	1986 Restated (Note 13)
Current		
Accounts payable and accrued liabilities	121,121	112,758
Accrued vacation pay	42,864	41,541
Refundable balance of parliamentary appropriations—Capital (Note 5)	589	421
	164,574	154,720
Long-term		
Provision for employee termination benefits	95,355	94,951
Advances from Government of Canada (Note 6)	33,000	33,000
Obligations under capital leases (Note 7)	1,164	311
	129,519	128,262
EQUITY OF CANADA		
Proprietor's Equity Account	460,481	447,518
	754,574	730,500

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board of Directors:

PAUL FRASER
Director

PIERRE JUNEAU
Director

STEVE COTSMAN
Vice-President, Finance

CANADIAN BROADCASTING CORPORATION—*Continued*

STATEMENT OF INCOME AND EXPENSE AND RECONCILIATION TO GOVERNMENT FUNDING BASIS FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986 Restated (Note 13)
Expense		
National Broadcasting Service, program and distribution costs	956,711	925,164
Radio Canada International, broadcasting service	17,269	16,093
Corporate engineering services	9,969	9,118
Corporate management and services	46,478	45,219
Commissions to agencies	33,681	31,156
Selling and merchandising	42,677	34,614
	1,106,785	1,061,364
Income		
Advertising	238,668	218,295
Miscellaneous	27,641	21,727
Parliamentary operating appropriation (Note 5)	782,673	789,638
	1,048,982	1,029,660
Excess of expense over income before income tax and extraordinary item	57,803	31,704
Income tax (Note 11)		10,694
Excess of expense over income before extraordinary item	57,803	42,398
Extraordinary item, income tax reduction (Note 11)		(10,694)
Excess of expense over income	57,803	31,704
Reconciliation to Government Funding Basis		
Deduct: net items not requiring current operating funds (Note 5)	45,857	43,310
Surplus (deficit) for the year	(11,946)	11,606
Surplus (deficit) carried over, beginning of the year	1,755	(9,851)
Surplus (deficit), end of the year	(10,191)	1,755

The accompanying notes are an integral part of the financial statements.

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986 Restated (Note 13)
Balance, beginning of the year		
As previously reported	458,075	412,535
Prior year's adjustments (Note 13)	(10,557)	
As restated	447,518	412,535
Add (Deduct): parliamentary appropriations—Capital—Net (Note 5)	68,260	64,788
parliamentary appropriations—Working capital (Note 5)	4,000	2,500
loss on disposal of fixed assets	(1,494)	(601)
surplus (deficit) for the year	(11,946)	11,606
net items not requiring current operating funds (Note 5)	(45,857)	(43,310)
Balance, end of the year	460,481	447,518

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986 Restated (Note 13)
Operating Activities		
Parliamentary operating appropriation	782,673	789,638
Advertising and miscellaneous income	266,309	240,022
Expense	(1,106,785)	(1,061,364)
Adjustments not involving cash		
Depreciation and amortization	48,455	47,800
Employee termination benefits	404	6,091
Parliamentary working capital appropriation	4,000	2,500
Net change in non-cash working capital balances	(4,802)	(18,570)
	(9,746)	6,117
Financing Activities		
Parliamentary capital appropriation	68,260	64,788
Investing Activities		
Expenditures on fixed assets	(69,036)	(65,034)
Disposal of fixed assets	776	343
Decrease in investments	3,964	1,067
	(64,296)	(63,624)
Increase (decrease) in cash	(5,782)	7,281
Cash, beginning of year	17,714	10,433
Cash, end of year	11,932	17,714

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and objective

The Canadian Broadcasting Corporation was established by the 1936, 1958 and 1968 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

The objective of the Corporation is to develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and to provide an international service. Both services should be primarily Canadian in content and character.

2. Significant accounting policies

The financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Engineering and production supplies and merchandise

The inventory of engineering and production supplies is stated at the lower of average cost and replacement cost. The inventory of merchandise is stated at the lower of cost and net realizable value.

(b) Programs completed and in process of production

The inventory of programs completed and in process of production produced directly by the Corporation is stated at cost. Cost includes the cost of goods and services, and the share of labour and overhead expenses applicable to each program. The inventory of programs completed and in process of production, co-produced and co-financed with third parties, are stated at their cost to the Corporation.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

The program cost is charged to operations as the programs are broadcast or when programs are determined unusable.

(c) Film rights

The Corporation enters into contracts for film broadcasting rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations as the films are broadcast or determined unusable.

(d) Investments

The investment in a joint venture is accounted for by the equity method with the Corporation's share of profit or loss credited or charged to operations. Other investments are carried at cost.

(e) Fixed assets

Fixed assets are recorded at cost. Cost includes material, engineering services, direct labour and related overhead. Depreciation is calculated on the straight-line method based on the estimated useful life of the assets, as follows:

Buildings	33 years
Technical equipment	
Transmitters and towers	20 years
Other	10 years
Furnishings and office equipment	10 years
Automotive	5 years

Major leasehold improvements are capitalized and amortized over the term of the lease to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate fixed asset classification upon completion, and are then depreciated according to the Corporation's policy. Gains and losses on disposals of fixed assets are credited or charged to the Proprietor's Equity Account.

(f) Capital leases

The assets and related obligations for capital leases are recorded at an amount equal to the present value of future lease payments. Assets recorded under capital leases are amortized on the straight-line method over the estimated useful life of the assets or based on the lease term as appropriate. Obligations under capital leases are reduced by rental payments net of implicit interest.

(g) Employee termination benefits and vacation pay

Employee termination benefits and vacation pay are expensed as benefits accrue to employees under their respective terms of employment.

(h) Pension plan

The cost of funding current service pension benefits is charged to operations as incurred. Unfunded liabilities as determined by actuarial valuation are funded by payments which are charged to operations over periods recommended by the actuaries and in accordance with regulatory requirements. Additional payments are charged to operations as made.

(i) Parliamentary appropriations

Parliamentary appropriations for operating expenditures are recorded as income. Net parliamentary appropriations for capital and working capital are credited to the Proprietor's Equity Account.

3. Investments

	1987	1986
	(in thousands of dollars)	
		Restated
"Hockey Night in Canada"—Joint venture, at equity	555	4,309
Télévision St. François Inc.—Preferred shares, at cost		210
Master FM Limited—Common shares, at cost	2	2
	557	4,521

4. Fixed assets

	1987			1986
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			Restated
Land	35,807		35,807	35,244
Buildings	247,687	101,797	145,890	146,623
Technical equipment	616,854	308,420	308,434	284,994
Furnishings and office equipment	27,287	10,786	16,501	16,719
Automotive	12,441	8,183	4,258	3,215
Leasehold improvements	5,397	3,584	1,813	2,941
Property under capital leases	1,391	96	1,295	408
Uncompleted capital projects	38,226		38,226	42,915
	985,090	432,866	552,224	533,059

5. Parliamentary appropriations

	Operating	Capital	Working Capital	Total
	(in thousands of dollars)			
Payments to the Corporation in providing a broadcasting service	782,673	68,428	4,000	855,101
Refundable to Government of Canada		168		168
Retained —1987	782,673	68,260	4,000	854,933
—1986	789,638	64,788	2,500	856,926

The following summarizes the net items not requiring current operating funds.

	1987	1986
	(in thousands of dollars)	
		Restated
Depreciation and amortization	48,455	47,800
Provision for employee termination benefits and vacation pay	1,727	8,253
Program inventory costs funded from current operating funds	(4,325)	(12,743)
	45,857	43,310

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

6. Advances from Government of Canada

Advances from the Government of Canada are made for working capital purposes and are free of interest. These advances become repayable when cash and treasury bills exceed the Corporation's requirements for working capital.

7. Lease obligations

As at March 31, 1987, the Corporation's obligations related to significant capital and operating leases for terms in excess of one year are as follows:

	Capital Leases	Operating Leases
	(in thousands of dollars)	
1988	480	35,617
1989	506	34,232
1990	258	21,346
1991		8,494
1992		4,695
1993-2061		4,911
Total future payments	1,244	109,295
Deduct: amount representing interest	80	
Long-term obligations under capital leases	1,164	

8. Commitments

As at March 31, 1987, commitments for film rights amounted to $32.0 million (1986—$36.8 million).

9. Pension plan

The Corporation's pension plan covers substantially all continuing employees. The charge to operations for the cost of the plan for the year ended March 31, 1987 was $37.1 million (1986—$39.7 million).

The last actuarial valuation was made at December 31, 1985 by William M. Mercer Limited. Like the preceding valuations, it was made on a "going concern basis" and in accordance with standard actuarial practice and legal requirements. The December 31, 1985 actuarial valuation indicated a surplus of $62,383,000.

In accordance with the Pension Benefits Standards Act and Regulations, the Corporation has applied a portion of the surplus to increase the benefits under the Plan, to reduce the contribution of the employer to the normal cost of the Plan and left the balance in the Fund.

10. Contingencies

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of these matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation.

11. Income tax

The Corporation is a prescribed federal Crown corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the federal Income Tax Act. Neither depreciation nor capital cost allowance are allowed in determining the Corporation's taxable income and in spite of an excess of expense over income determined for accounting purposes, the Corporation can have taxable income in any one year.

The Corporation has incurred a loss for income tax purposes in the current year. In the year ended March 31, 1986, the Corporation has recorded in its restated statement of Income and Expense and Reconciliation to Funding Basis the benefits related to the utilization of prior years losses as an extraordinary item.

As at March 31, 1987, losses which can be carried forward for income tax purposes and can be applied against possible taxable income in future years amount to $17.9 million which, if unused, would expire as follows:

	(in millions of dollars)
March 31	
1992	9.0
1994	8.9
	17.9

12. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations and is mainly financed by Parliament of Canada. Transactions with Canada are outlined in Notes 5 and 6.

During the year, transactions with these related departments, agencies and Crown corporations were normal business transactions on normal trade terms applicable to all individuals and enterprises.

13. Restatement of prior year's financial statements

During fiscal 1986, serious problems were experienced in implementing the initial phase of the National Finance System. As a result, proper books of account and an adequate degree of internal control were not maintained during the initial implementation period, which extended into fiscal 1987.

In fiscal 1987, the Corporation took major steps to restore internal control, re-establish and maintain proper books of account and restated the March 31, 1986 financial statements. The restatement resulted mainly from: recording bank and revenue transactions in the appropriate accounting period; adjusting accounts receivable and the provision for doubtful accounts; revising the indirect costs of program inventories; adjusting the accounts payable and accrued liabilities and the provision for employee termination benefits; and reclassifying amounts between balance sheet accounts. The impact of these adjustments on the major financial statement captions may be summarized as follows:

	Previously Reported	Increase (Decrease)	As Restated
	(in thousands of dollars)		
Balance Sheet			
Assets			
Current	204,750	(11,830)	192,920
Investments	4,521		4,521
Fixed	533,524	(465)	533,059
	742,795	(12,295)	730,500
Liabilities			
Current	160,607	(5,887)	154,720
Long-term	124,113	4,149	128,262
	284,720	(1,738)	282,982
Proprietor's Equity Account	458,075	(10,557)	447,518
	742,795	(12,295)	730,500

CANADIAN BROADCASTING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

	Previously Reported	Increase (Decrease)	As Restated
	(in thousands of dollars)		
Statement of Income and Expense and Reconciliation to Government Funding Basis			
Expense	1,052,313	9,051	1,061,364
Income	1,031,118	(1,458)	1,029,660
Excess of expense over income	(21,195)	(10,509)	(31,704)
Reconciliation to Government Funding Basis	27,503	5,956	33,459
Surplus (deficit) end of year	6,308	(4,553)	1,755

The Corporation is confident that all necessary corrections have been made, that the problems giving rise to such adjustments have been satisfactorily addressed, that by year end internal control has been re-established and proper books of account have been restored.

14. Change in accounting policy—Revised method of cost allocation for indirect program production labour and overhead expense

Commencing with the beginning of the 1985-86 fiscal year, the Corporation as part of its new National Finance System modified its method of accounting with respect to the allocation of the indirect program production labour and overhead expense to programs produced and transmitted. These costs are now allocated on the basis of a rate for each production centre, equal to the ratio of total direct to total indirect program costs, in lieu of basis employed in the preceding year. The changed basis has been applied prospectively effective April 1, 1985 for both television and radio.

To provide for greater consistency and uniformity, radio production labour and overhead are now accounted for on the same basis as television. This change had the effect of allocating a $3.0 million 1985-86 increase to radio program inventory on the balance sheet, with a corresponding decrease in radio programs broadcast on the statement of income and expense for 1985-86.

The impact of this change in policy on operating results of 1985-86 cannot be determined because of the discontinuance of the previous year's accounting systems.

SUMMARY PAGE

CANADIAN COMMERCIAL CORPORATION

MANDATE

To assist in the development of trade between Canada and other nations.

BACKGROUND

Established in 1946, the corporation serves as prime contractor when other countries wish to purchase goods and services from Canada on a government-to-government basis. As well, it assists in sales to international agencies.

CORPORATION DATA

HEAD OFFICE	Metropolitan Life Building 50 O'Connor Street Ottawa, Ontario K1A 0S6
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Patricia Carney, P.C., M.P., Minister for International Trade
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1946; by the *Canadian Commercial Corporation Act* (R.S.C. 1970, C-6).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Hugh Mullington
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	493.8	399.5	380.9	382.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	31.4	35.7	36.3	32.4
Cash from Canada in the period				
— budgetary	16.1	15.8	17.6	17.2
— non-budgetary	nil	nil	nil	nil

CANADIAN COMMERCIAL CORPORATION

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have examined the balance sheet of the Canadian Commercial Corporation as at March 31, 1987 and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for employees' annual leave and termination benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canadian Commercial Corporation Act and by-laws of the Corporation.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986	LIABILITIES	1987	1986
Cash and short-term deposits	55,008	58,853	Accounts payable and accrued liabilities	106,034	121,991
Deposit with Receiver General for Canada (Notes 1 and 10)	8,000	8,000	Advances from customers	36,073	32,691
Accounts receivable			Progress payments received or due	313,217	202,395
Foreign governments (Note 4)	111,141	117,228	Due to Government of Canada (Note 5)	2,945	3,525
Government of Canada—Parliamentary appropriations (Note 5)	461	1,089	Due to Defence Production Revolving Fund	292	539
Other	548	229	Provision for additional costs (Note 6)	3,181	2,660
Advances to suppliers	5,419	10,284		461,742	363,801
Progress claims paid or due	313,276	203,773	Employee termination benefits (Note 3)	723	
				462,465	363,801
			EQUITY OF CANADA		
			Paid in capital	10,000	10,000
			Contributed surplus	10,000	10,000
			Retained Earnings	11,388	15,655
				31,388	35,655
	493,853	399,456		493,853	399,456

Certified correct:

F. O. KELLY
Comptroller

Approved by the Board:

H. J. MULLINGTON
President

G. S. JUPP
Director

CANADIAN COMMERCIAL CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Revenues		
Contract billings	774,879	763,453
Fees and other income	715	12
Interest income	2,763	3,580
Gain (loss) on foreign exchange	(1,235)	405
	777,122	767,450
Expenses		
Cost of contract billings	774,879	763,453
Additional contract costs	2,465	2,119
Bad Debts	142	10
Services provided by Supply and Services Canada	10,354	9,830
Administrative (Note 9)	7,665	8,249
Consolidation expenses (Note 9)	493	
Legal fees and expenses charged by Department of Justice (Note 7)	505	272
Other	22	20
	796,525	783,953
Net cost of operations before extraordinary item	19,403	16,503
Extraordinary item (Note 3)	959	
Net cost of operations	20,362	16,503
Parliamentary appropriations	16,095	15,826
	(4,267)	(677)
Retained earnings at beginning of year	15,655	16,332
Retained earnings at end of year	11,388	15,655

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Financing Activities		
Parliamentary Appropriations		
Amount drawn down	16,095	15,826
Adjusted for decrease in receivable from Government of Canada	628	441
	16,723	16,267
Operating Activities		
Operations		
Net cost of operations	20,362	16,503
Adjustments for		
Extraordinary item	(959)	
Operating balances from customers and to suppliers	10,731	(23,339)
Advances and progress claims from customers and to suppliers	(9,566)	(7,274)
Total cash used (provided)	20,568	(14,110)
Increase (decrease) in cash and cash equivalents	(3,845)	30,377
Cash and cash equivalents at beginning of year	66,853	36,476
Cash and cash equivalents at end of year	63,008	66,853
Represented by		
Cash and short-term deposits	55,008	58,853
Deposit with Receiver General for Canada	8,000	8,000
	63,008	66,853

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and operations

The Corporation was established in 1946 by the Canadian Commercial Corporation Act and is an agent Crown corporation listed in Part I, Schedule C of the Financial Administration Act. The Corporation is not subject to income taxes.

The Corporation acts as the prime contracting agency when other countries and international agencies wish to purchase products and services from Canada on a government-to-government basis.

Contracts are made with foreign governments and corresponding contracts are entered into with Canadian firms by the Corporation.

During the year, in accordance with a Cabinet decision, the Corporation implemented a policy of charging a fee for its services on contracts signed after June 1, 1986. However, on December 23, 1986, the Corporation suspended this policy pending further Cabinet review.

Supply and Services Canada provides contracting services to the Corporation at predetermined rates approved by Treasury Board, based on the amounts of contracts procured, and provides certain administrative functions at cost.

If the Minister so directs, the Corporation is required to pay to the Receiver General for Canada any funds that the Minister considers to be in excess of requirements. Any such payments are on deposit with the Receiver General for Canada and can, on the request and in the opinion of the Minister, be returned to the Corporation when required. During 1983-84, an amount of $8 million was paid by the Corporation to the Receiver General for Canada and no interest will accrue to the Corporation on such deposit (see also Note 10).

2. Significant accounting policies

(a) Contract billings

Revenues from contracts are recorded at the time of delivery except in the case of contracts involving progress payments; in these cases, revenues are recorded at the time the progress payments become due from customers. Since title to work-in-progress covered by progress claims has not passed to customers, the Corporation sets up a corresponding liability and cost of contract billings. The Corporation records all progress claims by its suppliers as assets. These assets and liabilities are reduced, in accordance with contract terms, as deliveries are accepted.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur. Gains and losses resulting from translations are shown in the statement of operations.

(c) Parliamentary appropriations

Parliamentary appropriations are recorded in the year in which the corresponding expenses are incurred but are drawn upon only as cash disbursements are made.

(d) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. These contributions represent the total obligation of the Corporation and are charged to income on a current basis.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for these benefits is recorded in the account as the benefits accrue to employees.

CANADIAN COMMERCIAL CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

3. Change in accounting policy

During the year the Corporation adopted the accrual basis for accounting for employees' annual leave and termination benefits as 93 employees from Supply and Services Canada with benefits of $827,000 were consolidated with its Head Office group with benefits of $148,000. Previously, annual leave and termination benefits were not accrued in the financial statements as they were not of a material amount. Instead, they were expensed as disbursements were made. Therefore, the change has been made prospectively. The effect of the change has been to increase the cost of operations by the net amount of $959,000 required to set up a liability for annual leave and a provision for employee termination benefits as at March 31, 1987.

4. Accounts receivable from foreign governments

As at March 31, 1987, the Corporation has provided $996,000 (1986—$854,000) to cover the possible non-collection of certain accounts receivable from a foreign government.

5. Government of Canada

As at March 31, 1987, funds to cover expenses of $461,000 applicable to 1986-87 appropriations had not been drawn and $2,945,000 had not been paid to various government departments.

6. Contractual obligations

As at March 31, 1987, the Corporation was obligated to fulfill contracts with customers amounting to $1.132 billion (1986—$1.127 billion).

The Corporation is responsible to its customers for the performance of its suppliers and thus may incur additional contract costs on default of a supplier. A provision of $3,181,000 (1986—$2,660,000) has been made for estimated additional contract costs which may be incurred if certain suppliers are unable to meet their contractual obligations.

7. Legal fees and expenses charged by the Department of Justice

The Corporation has been directed by Treasury Board to reimburse the Department of Justice for legal fees and expenses resulting from the action taken against the Corporation related to the contract referred to in Note 8(a). These costs amounted to $505,000 (1986—$272,000).

8. Contingencies

(a) The Corporation has been named as defendant in a lawsuit instituted in 1975 alleging losses resulting from the termination of a portion of a contract and seeking damages of $6.8 million plus accrued interest and costs. Based on the advice of legal counsel, management is of the opinion that no provision for possible loss in respect of this suit is required.

(b) The Corporation has been named as defendant in legal proceedings instituted in 1985, alleging losses resulting from a breach of contract by the Corporation and seeking damages of $744,000. The action is being contested by the Corporation and the ultimate outcome is uncertain. A preliminary review of the facts and law by counsel indicates that there is no liability on the part of the Corporation. On the basis of that opinion, management is of the view that no provision for possible loss in respect to these proceedings is required.

(c) The Corporation has been named as defendant in a lawsuit instituted in 1986 seeking damages in an amount of $720,000 plus interest and costs, resulting from an alleged breach of contract by the Corporation. The action is being contested by the Department of Justice on behalf of the Corporation. A preliminary review of the facts and law by counsel indicates that chances of success of this action against the Corporation are remote. On the basis of that opinion, the Corporation's management is of the view that no provision for possible loss in respect of these proceedings is required.

9. Restatement of 1985-86 financial statements

During 1986, the Government approved the consolidation of the staff of the former Export Supply Branch of Supply and Services Canada (SSC) with the Corporation's Head Office group, effective April 1, 1986. This integration was aimed at streamlining the day-to-day processes involved in carrying out the Corporation's work, and achieving substantial economies in terms of reduced costs. Consequently, in order to provide pertinent information and to enhance comparability with the financial statements of the current year, the administrative cost that was included in services provided by SSC is reclassified for 1985-86. Accordingly, SSC expenses were reduced by $6.220 million and administrative costs for 1985-86 increased by the same amount. This change in grouping of items within relevant categories provides more meaningful information to interpret data that are based on comparisons.

10. Subsequent event

On April 1, 1987, an amount of $5.0 million of the $8.0 million that was deposited with the Receiver General for Canada (Note 1) was returned to the Corporation. In the opinion of the Corporation and the Minister, these funds are required to meet funding requirements for 1987-88.

SUMMARY PAGE

CANADIAN DAIRY COMMISSION

MANDATE

To provide efficient producers of milk and cream with an opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

BACKGROUND

Established in 1966, the corporation administers the following elements of the federal dairy program: calculation of Target Price for manufacturing milk and cream; market support for the Target Price through a nationwide offer to purchase butter and skim milk powder; payment of subsidy on eligible milk and cream shipments; international marketing of dairy products not required for domestic consumption; receipt of levies collected by provinces from farmers to finance the cost of exporting products surplus to domestic requirements; and coordination of national supply management of industrial milk production.

CORPORATION DATA

HEAD OFFICE	Pebb Building 2197 Riverside Drive Ottawa, Ontario K1A 0Z2
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1966; by the *Canadian Dairy Commission Act* (R.S.C. 1970, C-7).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Roch Morin
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends July 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	259.8	333.6	304.0	360.5
Obligations to the private sector	89.9	58.2	60.6	56.5
Obligations to Canada	126.3	234.3	180.4	231.8
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary*	292.2	314.4	303.6	309.9
— non-budgetary, net	(108.0)	53.9	(51.3)	24.9

* Includes payments via the Agricultural Stabilization Board.

CANADIAN DAIRY COMMISSION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1987
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN DAIRY COMMISSION—*Continued*

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have examined the balance sheet of the Canadian Dairy Commission as at July 31, 1986 and the statements of dairy support program operations financed by Government of Canada and marketing operations and financing by producers for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at July 31, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canadian Dairy Commission Act and the by-laws of the Commission.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
December 12, 1986

BALANCE SHEET AS AT JULY 31, 1986
(in thousands of dollars)

ASSETS	1986	1985	LIABILITIES	1986	1985
Accounts receivable			Accounts payable and accrued liabilities	34,067	28,827
Trade	21,525	23,688	Allowance for losses on purchase commitments (Note 4)	8,595	7,972
Government of Canada	53,940	81,981	Subsidies payable to producers	53,887	58,164
Producer levies	94,387	107,515	Loans from Government of Canada (Note 5)	127,241	238,599
Inventories (Note 3)	89,950	119,996		223,790	333,562
Prepaid expense		382	FINANCING BY PRODUCERS		
			Excess of financing over cost of marketing operations (Note 6)	36,012	
	259,802	333,562		259,802	333,562

Approved:

ROCH MORIN
Chairman

KENNETH McKINNON
Vice-Chairman

PAUL SIMARD
Director of Finance

CANADIAN DAIRY COMMISSION—*Continued*

STATEMENT OF DAIRY SUPPORT PROGRAM OPERATIONS
FINANCED BY GOVERNMENT OF CANADA
FOR THE YEAR ENDED JULY 31, 1986
(in thousands of dollars)

	1986	1985
Subsidies to producers of industrial milk and cream (Schedule A)	277,311	283,612
Expenses related to marketing operations		
Interest	6,477	18,267
Storage	2,000	3,122
Freight	1,884	3,264
Handling	286	484
Miscellaneous	79	277
	10,726	25,414
Administrative expenses (Schedule B)	4,191	3,668
Research		1,661
Cost of dairy support program operations	292,228	314,355
Financing by Government of Canada (Note 6)		
Agricultural Stabilization Board	288,037	309,026
Parliamentary appropriation	4,119	5,177
Government departments which provided services without charge	72	152
	292,228	314,355

STATEMENT OF MARKETING OPERATIONS AND
FINANCING BY PRODUCERS
FOR THE YEAR ENDED JULY 31, 1986
(in thousands of dollars)

	1986	1985
Sales	230,520	338,916
Cost of goods sold	401,654	578,766
Loss on sales	171,134	239,850
Expenses and assistance		
Dairy product assistance	60,695	37,855
Carrying charges	4,648	10,554
Agents' commissions (Note 7)	3,517	5,690
Provision for doubtful accounts	2,300	2,300
Promotion	804	
Capital assistance recoveries	(615)	(978)
Donation to Mexico and Ethiopia	416	290
Transport assistance	359	
	72,124	55,711
Cost of marketing operations before financing	243,258	295,561
Financing by Producers' levies (Note 6)		
Industrial milk (Schedule C)	271,400	274,720
Fluid milk (Schedule D)	7,870	7,497
	279,270	282,217
Government of Canada		2,564
	279,270	284,781
Excess (deficiency) of financing over cost of marketing operations (Schedule E)	36,012	(10,780)
(Deficiency) at beginning of year		(13,581)
	36,012	(24,361)
Deficiency recoverable from producers		24,361
Excess of financing over cost of marketing operations at end of year (Note 6)	36,012	

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1986

1. The Commission

The Canadian Dairy Commission is a Crown corporation named in Schedule C, Part I of the Financial Administration Act and is not subject to the provisions of the Income Tax Act. The objectives of the Commission, as established by the Canadian Dairy Commission Act 1966-67, are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

2. Significant accounting policies

Foreign currency translation

Each asset, liability, revenue or expense arising from a foreign currency transaction is translated into Canadian dollars at the exchange rate in effect at the date of transaction. Monetary items denominated in a foreign currency at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Any exchange loss or gain, arising on translation or settlement of a foreign currency item, is charged to marketing operations financed by producers. Unrealized gains and losses arising from the translation of long-term monetary items are deferred and amortized over the remaining lives of these items.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Fixed assets

Acquisitions of furniture and equipment are not significant and are charged to administrative expenses in the year of purchase.

Purchase commitments

Losses on commitments to purchase skim milk powder at Canadian support prices and other dairy products at negotiated contract prices, which are usually higher than export prices, are charged to marketing operations financed by producers at the time the commitment is made.

3. Inventories

	1986	1985
	(in thousands of dollars)	
Cost		
Butter	93,063	106,559
Skim milk powder	39,692	57,257
Other dairy products	12,803	33,440
	145,558	197,256
Less allowance for write down		
Butter	24,749	23,457
Skim milk powder	26,468	38,798
Other dairy products	4,391	15,005
	55,608	77,260
	89,950	119,996

Inventories which are recorded at cost have been written down to their net realizable value as the prices of surplus dairy products are substantially lower on the world market than domestic support prices and costs. The decrease in the allowance for inventory write down has been credited to marketing operations (cost of goods sold) financed by producers.

CANADIAN DAIRY COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1986—*Concluded*

4. Commitments

As at July 31, 1986, the Commission was committed to purchase butter and skim milk powder, produced prior to that date, at Canadian support prices and other dairy products at negotiated contract prices for approximately $13.7 million (1985—$11.9 million). Losses which may result from these purchases at higher than export prices have been estimated at approximately $8.6 million (1985—$7.9 million) requiring an increase in the allowance during the year of approximately $0.7 million (1985—decrease $5.6 million) which has been charged to cost of goods sold on the statement of marketing operations and financing by producers.

5. Loans from Government of Canada

The loans are raised to finance the purchase of dairy products under the dairy support program. There are no specific terms of repayment. However, loans are repaid on a regular basis as and when funds are available. The Commission is allowed to borrow to a maximum of $300 million. The interest is calculated on a simple basis and paid at the time of any principal repayment. The interest rates during the year varied from 8.125% to 11.875% (1985—9.375% to 12.375%).

Loan transactions are summarized as follows:

	1986	1985
	(in thousands of dollars)	
Balance at beginning of year	238,599	182,516
Borrowings	289,410	497,236
Repayments	(401,719)	(445,452)
Accrued interest at end of year	951	4,299
Balance at end of year	127,241	238,599

6. Financing

Government of Canada

The Agricultural Stabilization Board, through Vote 15, provides financing to the Commission for the benefit of producers for the purpose of stabilizing the price of industrial milk and cream. During the year ended July 31, 1986, financing for this purpose amounted to $288 million.

Administrative expenses are financed by Agriculture Votes 40 and 55.

Producers

Producers are responsible for the cost of disposal of surplus products, including all losses on special export production under the export quota program, and for marketing costs attributable to surplus production. These costs are financed through producer levies which are charged and collected by the provincial marketing boards and agencies and remitted to the Commission.

Interest expense and carrying charges associated with the purchase of butter and skim milk powder in excess of the Canadian requirement of butterfat are financed by producers.

Effective April 1, 1986 interest expense and carrying charges associated with the purchase of skim milk powder are being financed by the Government of Canada up to a maximum of $10 million.

In accordance with Section 36 of the National Milk Marketing Plan, the treatment of any excess or deficiency of financing by producers in respect of marketing operations is to be determined by the Canadian Milk Supply Management Committee. Subsequent to the year end, the Committee has decided that $26 million of the $36 million excess financing at July 31, 1986 will be refunded to provinces through credits to levy payments to the Commission commencing with the payments due in December 1986.

7. Agents' commissions

The Commission has used the services of sales agents for dairy products on the export market. Sales commissions were as follows:

	1986	1985
	(in thousands of dollars)	
Coop Fédérée de Québec, Canada	1,895	2,401
L&M Exports Inc., Canada	631	2,594
Intercontinental, Mexico	555	535
Gestion Y. Dessarrollo—Commercial S.A., Peru	433	146
Canada Expa (1980) Inc., Canada	3	14
	3,517	5,690

8. Financial statement presentation

A statement of changes in financial position has not been included because, in the opinion of management, it would not provide any useful additional information.

SUBSIDIES TO PRODUCERS OF INDUSTRIAL MILK AND CREAM FOR THE YEAR ENDED JULY 31, 1986 — SCHEDULE A

	Eligible Shipments		Subsidies	
	1986	1985	1986	1985
	(in thousands of kilograms)		(in thousands of dollars)	
Prince Edward Island	3,114	3,108	5,215	5,206
Nova Scotia	2,079	2,137	3,483	3,578
New Brunswick	2,168	2,257	3,632	3,780
Quebec	78,808	80,962	132,004	135,611
Ontario	51,479	53,729	86,227	89,996
Manitoba	6,423	6,594	10,759	11,044
Saskatchewan	4,298	4,411	7,199	7,388
Alberta	11,056	11,427	18,518	19,140
British Columbia	6,134	6,229	10,274	7,869
	165,559	170,854	277,311	283,612

ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED JULY 31, 1986 (in thousands of dollars) — SCHEDULE B

	1986	1985
Salaries	2,283	2,031
Rentals	443	183
Transportation and communications	396	410
Professional and special services	393	264
Other personnel costs	271	264
Remuneration of members of the Commission	188	191
Data processing and cheque issue services	72	152
Utilities, materials and supplies	68	54
Furniture and equipment	35	96
Repairs and maintenance	26	22
Miscellaneous	16	1
	4,191	3,668

CANADIAN DAIRY COMMISSION—*Continued*

PRODUCER LEVIES ON INDUSTRIAL MILK
FOR THE YEAR ENDED JULY 31, 1986

SCHEDULE C

	Milk Shipments		Producer Levies					
			In Quota		Over Quota		Total	
	1986	1985	1986	1985	1986	1985	1986	1985
	(in thousands of litres)		(in thousands of dollars)					
Prince Edward Island	76,826	75,998	4,629	3,678	130		4,759	3,678
Nova Scotia	53,249	52,930	3,105	2,977	612	468	3,717	3,445
New Brunswick	53,793	54,905	3,247	3,122		248	3,247	3,370
Quebec	2,174,677	2,243,797	127,749	128,011		6,686	127,749	134,697
Ontario	1,291,746	1,321,949	76,385	74,630	11,463	9,780	87,848	84,410
Manitoba	147,709	153,566	8,696	8,680		1,070	8,696	9,750
Saskatchewan	100,133	101,510	5,775	5,775		444	5,775	6,219
Alberta	287,651	287,020	17,162	16,232	1,449	1,880	18,611	18,112
British Columbia	169,961	175,253	9,834	7,177	1,164	3,862	10,998	11,039
	4,355,745	4,466,928	256,582	250,282	14,818	24,438	271,400	274,720

PRODUCER LEVIES ON FLUID MILK
FOR THE YEAR ENDED JULY 31, 1986

SCHEDULE D

	Sales		Producer Levies*	
	1986	1985	1986	1985
	(in thousands of litres)		(in thousands of dollars)	
Prince Edward Island	14,198	13,509	42	41
Nova Scotia	116,151	114,916	350	347
New Brunswick	70,129	69,818	211	210
Quebec	669,151	655,236	2,017	1,980
Ontario	970,904	954,071	2,927	2,879
Manitoba	106,066	103,814	320	314
Saskatchewan	97,165	97,876	293	293
Alberta	257,321	253,457	776	758
British Columbia	309,704	303,183	934	675
	2,610,789	2,565,880	7,870	7,497

*Calculated at 5% of subsidy rate of $6.03 per hectolitre of sales.

CANADIAN DAIRY COMMISSION—*Concluded*

MARKETING OPERATIONS FINANCED BY PRODUCERS
FOR THE YEAR ENDED JULY 31, 1986

SCHEDULE E

	1986						1985			
	Butter	Skim Milk Powder	Evaporated Milk	Other Products*	Total	Total	Butter	Skim Milk Powder	Evaporated Milk	Others Products*
					(in thousands of dollars)					
Sales	77,974	72,929	71,027	8,590	230,520	338,916	134,516	71,916	119,931	12,553
Cost of goods sold	75,401	207,114	116,456	24,335	423,306	567,700	131,016	212,028	195,113	29,543
Allowance for inventory write down	1,292	(12,330)	(9,323)	(1,291)	(21,652)	11,066	(6,623)	6,898	8,845	1,946
	76,693	194,784	107,133	23,044	401,654	578,766	124,393	218,926	203,958	31,489
Loss (profit) on sales	(1,281)	121,855	36,106	14,454	171,134	239,850	(10,123)	147,010	84,027	18,936
Expenses and assistance										
Dairy product assistance	951	25,086	36	34,622	60,695	37,855	335	16,833	93	20,594
Carrying charges	3,316	27	1,242	63	4,648	10,554		1,959	8,176	419
Agents' commissions		934	2,367	216	3,517	5,690		651	4,707	332
Provision for doubtful accounts			1,700	600	2,300	2,300			1,700	600
Promotion		804			804					
Capital assistance recoveries			(132)	(483)	(615)	(978)			(495)	(483)
Donation to Mexico and Ethiopia			416		416	290			290	
Transport assistance	359				359					
	4,626	26,851	5,629	35,018	72,124	55,711	335	19,443	14,471	21,462
Cost of marketing operations before financing	3,345	148,706	41,735	49,472	243,258	295,561	(9,788)	166,453	98,498	40,398
Financing by Producers' Levies					279,270	284,781				
Excess (deficiency) of financing over cost of marketing operations for the year					36,012	(10,780)				

	Volume (in millions)				Volume (in millions)			
	Kilograms	Kilograms	Cases	Kilograms	Kilograms	Kilograms	Cases	Kilograms
Sales	16.4	69.9	4.1	5.1	29.5	75.8	7.1	6.0
Purchases	13.2	63.4	3.5	4.7	23.5	76.9	7.6	6.7

*Includes whole milk powder and cheese.

SUMMARY PAGE

CANADIAN FILM DEVELOPMENT CORPORATION

MANDATE

To foster and promote the development of a feature film industry in Canada. To administer the Canadian Broadcast Program Development Fund and the Feature Film Fund for private sector development of television and feature film productions meeting specific standards of Canadian content.

BACKGROUND

The scale of the corporation's activities has increased since 1981 with the inception of new government programs in support of the domestic television and feature film productions industry.

CORPORATION DATA

HEAD OFFICE	National Bank Tower 600 de la Gauchetière Street, West Montreal, Quebec H3B 4L2
STATUS	— an agent of Her Majesty — exempted from Divisions I to IV of Part XII of the *Financial Administration Act*; subject to Part VIII of this Act as it read immediately before the (1984) repeal thereof.
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1967; by the *Canadian Film Development Corporation Act*, (R.S.C. 1970, C-8)
CHIEF EXECUTIVE OFFICER	Peter Pearson
CHAIRMAN	Jean Sirois
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	35.7	13.0	12.2	7.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	6.3	6.3	6.3	9.0
Equity of Canada	28.5	10.1	8.2	2.7
Cash from Canada in the period				
— budgetary	86.0	75.9	46.6	16.3
— non-budgetary, net of repayments	nil	nil	(2.7)	negl.

CANADIAN FILM DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF COMMUNICATIONS

I have examined the balance sheet of the Canadian Film Development Corporation as at March 31, 1987 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canadian Film Development Corporation Act and the by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 9, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Loans		
Canadian programming	3,568,245	839,600
Feature films		
Interim financing	3,548,591	3,023,855
Permanent financing	2,345,986	
	9,462,822	3,863,455
Parliamentary appropriation receivable (Note 3)	22,983,315	8,186,552
Accounts receivable	995,769	243,767
Prepaid expenses	696,265	135,513
	34,138,171	12,429,287
Long-term loans		
Feature films		
Interim financing	242,500	
Permanent financing	395,000	
	637,500	
Fixed assets (Note 4)	931,185	541,990
	35,706,856	12,971,277

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable	6,934,431	2,702,054
Provision for employee termination benefits	276,504	175,500
	7,210,935	2,877,554
EQUITY OF CANADA		
Equity of Canada	28,495,921	10,093,723
	35,706,856	12,971,277

Approved by the Board:

JEAN SIROIS
President

Approved by Management:

PETER PEARSON
Executive Director

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1987

	1987			1986
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Assistance expenses (Note 5)				
English production	33,121,708	11,883,525	45,005,233	45,967,352
French production	16,363,098	7,034,437	23,397,535	21,277,073
Marketing and distribution		4,663,493	4,663,493	3,763,028
Development of the industry		3,268,339	3,268,339	1,387,988
	49,484,806	26,849,794	76,334,600	72,395,441
Revenues				
Management fees	1,023,607	655,433	1,679,040	30,099
Interest on loans	166,328	460,861	627,189	500,457
	1,189,935	1,116,294	2,306,229	530,556
Cost of operations before administration expenses	48,294,871	25,733,500	74,028,371	71,864,885
Administration expenses (Note 6)			3,874,667	1,973,711
Cost of operations for the year			77,903,038	73,838,596

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at beginning of the year	10,093,723	8,210,012
Parliamentary appropriation	96,305,236	75,722,307
	106,398,959	83,932,319
Cost of operations for the year	77,903,038	73,838,596
Balance at end of the year	28,495,921	10,093,723

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Cost of operations for the year	(77,903,038)	(73,838,596)
Items not affecting liquidity		
Write-offs	444,510	218,200
Depreciation	301,196	126,246
Increase (decrease) in the provision for employee termination benefits	101,004	(26,500)
	(77,056,328)	(73,520,650)
Net change in non liquidity items of working capital related to operations	2,919,623	(977,804)
	(74,136,705)	(74,498,454)
Investing activities		
Loans		
Investments	(9,369,445)	(3,753,500)
Reimbursements	2,688,068	4,483,934
	(6,681,377)	730,434
Acquisition of fixed assets	(690,391)	(97,053)
	(7,371,768)	633,381
Financing activities		
Parliamentary appropriation	96,305,236	75,722,307
Parliamentary appropriation receivable		
Increase for the year	14,796,763	1,857,234
Balance at beginning of the year	8,186,552	6,329,318
Balance at end of the year	22,983,315	8,186,552

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and activities

The Corporation was established in 1967 by the Canadian Film Development Corporation Act with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund, established on July 1, 1983, within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984.

The Corporation is a Crown corporation subject to the provisions of Part VIII of the Financial Administration Act as it read before its repeal and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, its liquidity consists of a parliamentary appropriation receivable.

(b) Loans

Loans are shown on the balance sheet at their face value, less an allowance for losses.

(c) Investments

Funds advanced for feature films and Canadian programming, in return for a share in the proceeds, are expensed as assistance expenses in the year in which the advances are made.

All proceeds, up to the amount of the related investment, are credited to expenses as a reduction of assistance expenses made during the year. Any amount in excess thereof is accounted for as revenues.

CANADIAN FILM DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

(d) Fixed assets

Fixed assets are recorded at cost.

Depreciation is provided for using the diminishing-balance method, at the annual rate of 30% for the automobile and 20% for furniture and equipment and for the computer installations. Leasehold improvements are amortized, using the straight-line method, based on the terms of the leases.

(e) Parliamentary appropriation

The parliamentary appropriation voted to the Corporation for its objectives comprises a non lapsing amount for the development of a feature film industry and another lapsing amount for the production of Canadian programming. The unlapsed parliamentary appropriation is credited to the Equity of Canada. The admissible unlapsed amount not used at the end of the year is presented on the balance sheet as a parliamentary appropriation receivable.

(f) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees of the Corporation participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and admissible past service are expensed during the year in which payments are made. The terms of payment for past service are set by the applicable purchase conditions in effect, generally over the number of years of service remaining prior to retirement.

3. Parliamentary appropriation receivable

	1987	1986
	$	$
Development of the feature film industry	19,300,768	5,153,899
Canadian programming production	3,473,638	2,056,508
Interim financing to producers and distributors of feature films	208,909	976,145
	22,983,315	8,186,552

4. Fixed assets

	1987			1986
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Furniture and equipment	955,538	440,039	515,499	302,358
Computer installations	480,244	156,158	324,086	120,172
Leasehold improvements	199,155	121,448	77,707	119,460
Automobile	19,847	5,954	13,893	
	1,654,784	723,599	931,185	541,990

5. Assistance expenses

	1987			1986
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Investments	52,851,490	23,680,962	76,532,452	70,479,139
Proceeds from investments	(5,350,441)	(1,564,192)	(6,914,633)	(3,262,967)
Loans written-off	70,000	374,510	444,510	218,200
Reimbursements of loans previously written-off		(43,318)	(43,318)	(72,628)
	47,571,049	22,447,962	70,019,011	67,361,744
Operating expenses (Note 6)	1,913,757	4,401,832	6,315,589	5,033,697
	49,484,806	26,849,794	76,334,600	72,395,441

6. Operating expenses

	1987	1986
	$	$
Salaries and employee benefits	4,507,156	3,297,920
Rent, taxes, heating and electricity	1,100,546	884,671
Professional services	1,058,176	392,926
Printing, postage and office expenses	992,137	609,165
Travel	750,434	412,153
Advertising and hospitality	637,576	467,913
Telephone and telex	319,978	234,511
Depreciation	301,196	126,246
Consultants' fees	293,035	373,147
Relocation expenses	114,613	113,010
Films and subtitling of films	112,938	92,726
Financing costs	2,471	3,020
	10,190,256	7,007,408
Portion applicable to assistance expenses (Note 5)	6,315,589	5,033,697
Portion applicable to administration expenses	3,874,667	1,973,711

7. Commitments

As at March 31, 1987, the Corporation is contractually committed to advance funds totalling $22,452,834 as loans and investments, of which $10,648,738 are for French productions and $11,804,096 are for English productions. Further, it has accepted financing projects that may call for disbursements of approximately $19.3 million of which $8.1 million are for French productions and $11.2 million are for English productions.

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	$
1988	685,385
1989	1,133,731
1990	1,102,611
1991	1,095,791
1992	1,030,444
1993-97	4,488,585
	9,536,547

SUMMARY PAGE

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

MANDATE

To increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective, with particular emphasis on arms control, disarmament, defence and conflict resolution.

BACKGROUND

The corporation was established in 1984 by special Act of Parliament. That Act was amended (S.C. 1985, c. 43) to give the corporation status under the *Financial Administration Act* resembling that of the cultural Crown corporations, being exempt from most provisions of Part XII of the Act. The corporation is authorized to fulfill its mandate by the following means:

(a) foster, fund and conduct research;
(b) promote scholarship;
(c) study and prepare ideas and policies; and
(d) collect and disseminate information on, and encourage public discussion as they relate to matters of international peace and security.

CORPORATION DATA

HEAD OFFICE	307 Gilmour Street Ottawa, Ontario K2P 0P7
STATUS	— not an agent of Her Majesty — exempt from divisions I to IV of Part XII of the *FAA* by s. 96(1) of that Act.
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1984; by the *Canadian Institute for International Peace and Security Act*, (S.C. 1983-84, C-37)
CHIEF EXECUTIVE OFFICER	Geoffrey Pearson
CHAIRMAN	William H. Barton
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**6 months to March 31, 198[illegible]**
At the end of the period			
Total Assets	1.6	1.9	1.3
Obligations to the private sector	nil	nil	nil
Obligations to Canada	nil	nil	nil
Equity of Canada	1.4	1.7	1.2
Cash from Canada in the period			
— budgetary	3.0	2.5	1.5
— non-budgetary	nil	nil	nil

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

AUDITOR'S REPORT

TO THE CANADIAN INSTITUTE FOR INTERNATIONAL
PEACE AND SECURITY
AND
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the Canadian Institute for International Peace and Security as at March 31, 1987 and the statements of operations and equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Institute as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 10, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash and term deposits	1,368,743	1,124,197
Canada treasury bills		499,789
Accrued interest	11,227	11,692
Prepaid expenses	15,557	75,896
	1,395,527	1,711,574
Fixed (Note 3)	160,718	140,994
	1,556,245	1,852,568

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued charges	154,297	111,223
EQUITY OF CANADA		
Equity of Canada	1,401,948	1,741,345
	1,556,245	1,852,568

Approved by:

WILLIAM H. BARTON
Chairman of the Board

GEOFFREY A.H. PEARSON
Executive Director

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Continued*

STATEMENT OF OPERATIONS AND EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Expenses (Schedule)		
Programmes		
Public programmes	1,126,729	683,478
Research	1,054,975	547,381
Information services	245,567	117,267
Awards and scholarships	12,600	
	2,439,871	1,348,126
Administration and support		
Administration	582,778	544,187
Executive	320,425	195,268
Board of Directors	63,655	132,774
	966,858	872,229
	3,406,729	2,220,355
Revenue		
Interest income	67,332	225,745
Net cost of operations	3,339,397	1,994,610
Parliamentary appropriation	3,000,000	2,500,000
Excess of (net cost of operations over parliamentary appropriation) parliamentary appropriation over net cost of operations	(339,397)	505,390
Equity of Canada at the beginning of the year	1,741,345	1,235,955
Equity of Canada at the end of the year	1,401,948	1,741,345

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Cash used by operations		
Net cost of operations	3,339,397	1,994,610
Item not requiring an outlay of funds		
Depreciation of fixed assets	(50,684)	(35,472)
	3,288,713	1,959,138
Accounts payable and accrued charges	(43,074)	(15,040)
Accrued interest	(465)	(14,455)
Prepaid expenses	(60,339)	24,067
	3,184,835	1,953,710
Investing activities		
Acquisition of office furniture, equipment and leasehold improvements	70,408	172,881
Financing activities		
Parliamentary appropriation	(3,000,000)	(2,500,000)
(Decrease) increase during the year	(255,243)	373,409
Balance at the beginning of the year	1,623,986	1,250,577
Balance at the end of the year	1,368,743	1,623,986

The balance includes cash, term deposits and Canada treasury bills.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and operations

The Institute was established in June 1984 under the Canadian Institute for International Peace and Security Act which was amended by Bill C-69. It is an exempted Crown corporation as defined in the Financial Administration Act.

The purpose of the Institute is to increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective with particular emphasis on arms control, disarmament, defence and conflict resolution, and to:

(a) foster, fund and conduct research on matters relating to international peace and security;

(b) promote scholarship in matters relating to international peace and security;

(c) study and propose ideas and policies for the enhancement of international peace and security; and

(d) collect and disseminate information on, and encourage public discussion of, issues of international peace and security.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies followed are:

(a) Fixed assets

Fixed assets are recorded at cost. Office furniture and equipment are depreciated on the straight-line basis at an annual rate of 20%. Leasehold improvements are amortized, using the straight-line method, based on the duration of the lease.

(b) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Institute's contributions are equal to the contributions paid by its employees in respect of current services. These contributions represent the total liability of the Institute in respect of the pension plan and are recorded as expenses in the same period as the employees' services are rendered.

(c) Income taxes

The Institute is exempt from any liability for income taxes.

(d) Parliamentary appropriation

Parliamentary appropriation is recorded in the accounts on an accrual basis. Furthermore, the Act states that the Institute shall be paid from the Consolidated Revenue Fund the following sums:

	$
1987-88	4 million
1988-89	5 million
thereafter	5 million or such greater amount as may be appropriated by Parliament.

(e) Grants and transfer payments

The Institute recognizes its liability for a grant or transfer payment upon the conditions of the agreement being met by the recipient of the grant or transfer payment.

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

3. Fixed assets

	1987			1986
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	$	$	$	$
Office furniture	147,339	53,592	93,747	94,754
Equipment	54,560	18,502	36,058	27,619
Leasehold improvements	45,872	14,959	30,913	18,621
	247,771	87,053	160,718	140,994

4. Commitments

Leases

The Institute has entered into lease agreements for the rental of office premises. The Institute can renew in 1990 the main lease agreement for an additional five-year period. The minimum annual rent for the next three years is $133,000.

Grants and transfer payments

The Institute is committed to make payments totalling approximately $569,200 in subsequent years subject to compliance by the recipients with the terms of the agreements. Payments totalling approximately $551,000 are to be made during the next fiscal year.

	$
Research	274,625
Public programmes	172,175
Awards and scholarships	112,400
Information services	10,000
	569,200

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1987

	Programmes					Administration and Support					
	Public Programmes	Research	Information Services	Awards and Scholarships	Total	Administration	Executive	Board of Directors	Total	1987	1986
	$	$	$	$	$	$	$	$	$	$	$
Grants and transfer payments	585,276	538,093	50,129	12,600	1,186,098					1,186,098	705,449
Personnel	275,164	258,792	129,413		663,369	145,891	295,511		441,402	1,104,771	761,623
Publications	226,851	127,607			354,458					354,458	80,547
Rentals						184,713			184,713	184,713	169,868
Transportation and communications	17,782	24,047	14,147		55,976	66,177	20,056	35,955	122,188	178,164	172,018
Conferences, workshops and seminars	19,642	91,775	10,248		121,665					121,665	42,161
Materiel and supplies			32,696		32,696	45,604			45,604	78,300	83,173
Professional and special services	2,014	14,661	8,934		25,609	46,606	4,858		51,464	77,073	62,317
Depreciation of fixed assets						50,684			50,684	50,684	35,472
Purchased repair and upkeep						42,951			42,951	42,951	45,527
Directors' fees								27,700	27,700	27,700	60,185
Miscellaneous						152			152	152	2,015
	1,126,729	1,054,975	245,567	12,600	2,439,871	582,778	320,425	63,655	966,858	3,406,729	2,220,355

SUMMARY PAGE

CANADIAN LIVESTOCK FEED BOARD

MANDATE

To ensure: availability of adequate feed grain to meet the needs of livestock feeders; availability of adequate storage for feed grain in eastern Canada; reasonable stability in prices for feed grain in eastern Canada, British Columbia and the Yukon and Northwest Territories; and fair equalization of feed grain prices in those regions.

BACKGROUND

Established in 1967, the Board executes its mandate by subsidizing the transportation costs of feed grains; by assessing requirements for feed grains and storage space and by collecting and disseminating related information; and by negotiating and coordinating with respect to storage, handling, transportation and cost of feed grains. Its programs are financed by budgetary payments from Canada.

CORPORATION DATA

HEAD OFFICE	Suite 400 5180 Queen Mary Road P.O. Box 177, Snowdon Station Montreal, Quebec H3X 3T4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Charles Mayer, P.C., M.P. Minister of State for Grains and Oilseeds
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1967; pursuant to the *Livestock Feed Assistance Act*, (R.S.C. 1970, L-9).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Denis Ethier
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-8
At the end of the period				
Total Assets	2.4	2.5	2.9	2.4
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.3	0.5	0.7	0.4
Cash from Canada in the period				
— budgetary	17.2	16.8	18.7	16.8
— non-budgetary	nil	nil	nil	nil

CANADIAN LIVESTOCK FEED BOARD

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE
AND THE
CANADIAN LIVESTOCK FEED BOARD

I have examined the balance sheet of the Canadian Livestock Feed Board as at March 31, 1987 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Board as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Board that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Livestock Feed Assistance Act and regulations and the by-laws of the Board.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Accounts receivable	6,038	10,982
Parliamentary appropriations receivable	1,968,320	1,848,414
	1,974,358	1,859,396
Amounts recoverable under the new inland elevator construction assistance program (Note 3)	459,879	611,207
	2,434,237	2,470,603

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable	59,095	81,732
Contributions payable	1,933,994	1,806,266
	1,993,089	1,887,998
Provision for employee termination benefits	127,716	108,100
	2,120,805	1,996,098
EQUITY OF CANADA		
Equity of Canada	313,432	474,505
	2,434,237	2,470,603

Approved by Management:

PIERRE MORIN
Director of Finance

Approved by the Board:

DENIS ÉTHIER
Chairman

CANADIAN LIVESTOCK FEED BOARD—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Contributions		
Feed freight assistance	15,834,547	15,430,226
New inland elevator construction assistance (Note 3)	13,000	13,000
	15,847,547	15,443,226
Administrative expenses		
Salaries and employee benefits	883,696	903,842
Rentals	89,759	83,449
Travel	79,380	76,760
Stationery and office supplies	52,130	57,750
Telephone	48,180	54,223
Professional and special services	41,092	35,968
Publication of reports	40,649	43,981
Postage	39,727	43,942
Equipment and office furniture	11,023	14,234
Electricity	10,507	9,848
Accounting and cheque issue services	3,000	3,000
Advisory committee fees	2,375	3,250
Miscellaneous	8,562	7,100
	1,310,080	1,337,347
Cost of operations for the year	17,157,627	16,780,573

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at beginning of the year	474,505	694,500
Parliamentary appropriations	16,993,554	16,557,578
Services provided without charge by a government department	3,000	3,000
	17,471,059	17,255,078
Cost of operations for the year	17,157,627	16,780,573
Balance at end of the year	313,432	474,505

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Cost of operations for the year	17,157,627	16,780,573
Items not affecting liquidity		
Provision for losses in respect of amounts recoverable under the new inland elevator construction assistance program	(13,000)	(13,000)
Services provided without charge by a government department	(3,000)	(3,000)
Increase in the provision for employee termination benefits	(19,616)	(6,291)
	17,122,011	16,758,282
Decrease in accounts receivable	(4,944)	(7,744)
Decrease in accounts payable	22,637	30,618
Decrease (increase) in contributions payable	(127,728)	231,253
	17,011,976	17,012,409
Financing activities		
Parliamentary appropriations	(16,993,554)	(16,557,578)
Investing activities		
Amounts recovered under the new inland elevator construction assistance program	(138,328)	(187,219)
Parliamentary appropriations receivable		
Increase (decrease) for the year	119,906	(267,612)
Balance at beginning of the year	1,848,414	2,116,026
Balance at end of the year	1,968,320	1,848,414

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and objectives

The Board, a Crown corporation named in Part I of Schedule C to the Financial Administration Act, was established in 1967 under the Livestock Feed Assistance Act with the objective of ensuring:

— the availability of feed grain to meet the needs of livestock feeders;

— the availability of adequate storage space in Eastern Canada for feed grain to meet the needs of livestock feeders; and

— reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada, British Columbia, the Yukon Territory and the Northwest Territories.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Board are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, the liquidity consists of parliamentary appropriations receivable or payable.

(b) Contributions

Feed freight assistance is charged to operations in the year in which shipments are made.

Write-offs or provisions for losses of amounts recoverable under the new inland elevator construction assistance program are charged to operations in the year in which collection is considered doubtful.

(c) Capital expenditures

Purchases of equipment, office furniture, vehicles and costs of office renovations are expensed in the year of acquisition.

(d) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Equity of Canada for the year to which they apply.

CANADIAN LIVESTOCK FEED BOARD—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

(e) Services provided without charge

An estimated amount for services provided without charge by a government department is included in expenses with an offset to the equity of Canada.

(f) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees participate in the superannuation plan administered by the Government of Canada. The employees and the Board contribute equally to the cost of the plan. This contribution represents the total liability of the Board. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

3. Amounts recoverable under the new inland elevator construction assistance program

Under the new inland elevator construction assistance program, the Board contributed towards certain construction cost. As at March 31, 1983, all contributions by the Board had been paid to operators of the elevators. These operators are called upon to reimburse, without interest, part of the contributions received. Reimbursements are based on stored quantities from the fourth to the tenth year of operation of the new facility without exceeding 40% of the contribution received.

As at March 31, 1987, the Board estimates that the amounts that will be recovered, net of a provision for losses, total $459,879 ($611,207 as at March 31, 1986). Because of the basis for the calculation of reimbursements, it is not possible to determine the amounts that will be recovered during each applicable year.

SUMMARY PAGE

CANADIAN NATIONAL RAILWAY COMPANY

MANDATE

To operate a national railway system and other transportation and related services, including water transportation, trucking, telecommunications and hotels.

BACKGROUND

The corporation was created out of more than 200 companies, many of them insolvent. Its creation avoided the emergence of a monopoly in railway transport. The corporation's role was to mold a number of railway companies into one strong and commercially-competitive system, serving the entire nation. It was recapitalized in 1937, in 1952 and again in 1978.

CORPORATION DATA

HEAD OFFICE	935 de la Gauchetière Street West Montreal, Quebec H3B 2M9
STATUS	—Schedule C, Part II —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1919; by the *Canadian National Railway Act* 1919 which was superseded by the 1955 Act of the same name (R.S.C. 1970, C-10).
CHIEF EXECUTIVE OFFICER	Ronald Lawless
CHAIRMAN (ACTING)	Brian Gallery
AUDITOR	Coopers & Lybrand and Touche Ross & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985***	1984	1983
At the end of the year				
Total Assets	7,843	8,139	7,467	6,790
Obligations to the private sector	3,380	3,217	2,696	2,269
Obligations to Canada	209	266	274	283
Equity of Canada*	3,005	3,418	3,324	3,113
Cash from Canada in the year				
—budgetary**	19.8	9	7	175
—non-budgetary	nil	nil	18	102

*$328 million of capital stock cancelled as CN Marine Inc. was transferred to the Crown.

**Does not include payments of a kind made to a general class of recipients.

***1985 data and 1984 budgetary cash exclude CN Marine Inc. data which previously were consolidated within those of CNR.

CANADIAN NATIONAL RAILWAY SYSTEM

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have examined the consolidated balance sheets of the Canadian National Railway System as at December 31, 1986 and 1985 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the System as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1986 in accordance with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
Chartered Accountants
(For the years ended December 31, 1986, 1985 and 1984)

Touche Ross & Co.
Chartered Accountants
(For the years ended December 31, 1986 and 1985)

Montreal, Canada
February 24, 1987

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in thousands of dollars)

ASSETS	1986	1985
Current Assets		
Accounts receivable	494,597	486,922
Material and supplies	377,132	406,184
Other	252,915	234,849
	1,124,644	1,127,955
Insurance Fund	8,905	9,176
Investments	75,270	380,011
Properties	6,248,505	6,193,468
Other Assets and Deferred Charges	385,290	428,171
	7,842,614	8,138,781

LIABILITIES		1986		1985
Current Liabilities				
Bank indebtedness		106,894		152,719
Accounts payable and accrued charges		899,189		954,235
Current portion of long-term debt		305,812		223,885
Other		186,273		155,732
		1,498,168		1,486,571
Provision for Insurance		8,905		9,176
Other Liabilities and Deferred Credits		274,097		271,891
Long-Term Debt		3,052,486		2,948,347
Minority Interest in Subsidiary Companies		4,345		4,345
SHAREHOLDER'S EQUITY				
Capital stock	2,278,867		2,606,425	
Retained earnings	725,746	3,004,613	812,026	3,418,451
		7,842,614		8,138,781

See accompanying notes to consolidated financial statements.

On behalf of the Board:

BRIAN O'N. GALLERY
Director

RONALD E. LAWLESS
Director

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985	1984
CN Rail			
Revenues	3,652,655	3,753,190	3,787,251
Expenses*	3,663,826	3,647,658	3,568,384
Income (loss)	(11,171)	105,532	218,867
Grand Trunk Corporation			
Revenues	531,399	551,782	524,035
Expenses	545,556	538,200	512,347
Income (loss)	(14,157)	13,582	11,688
Enterprises group			
CN Communications			
Revenues	303,384	303,930	287,786
Expenses	267,145	260,882	255,398
Income	36,239	43,048	32,388
CN Hotels			
Revenues	146,911	129,846	102,186
Expenses	147,570	133,289	107,489
Loss	(659)	(3,443)	(5,303)
CN Exploration			
Revenues	33,869	56,730	31,873
Expenses	29,368	26,123	15,973
Income	4,501	30,607	15,900
CN Real Estate			
Revenues	35,157	29,582	30,544
Expenses	16,330	14,885	16,481
Income	18,827	14,697	14,063
Other			
Income (loss)	1,822	(489)	1,208
Total Enterprises group	60,730	84,420	58,256
Total CN Rail, Grand Trunk Corporation, Enterprises	35,402	203,534	288,811
Imposed public duty: TerraTransport			
Loss	(41,291)	(39,908)	(34,621)
Total continuing operations	(5,889)	163,626	254,190
Discontinued operations*			
CN Route			
Loss	(70,961)	(42,590)	(31,938)
Dockyard			
Loss	(9,430)	(2,933)	(1,796)
CN Marine Inc.			
Income			21,888
Total discontinued operations	(80,391)	(45,523)	(11,846)
Income (loss) before income taxes and extraordinary item	(86,280)	118,103	242,344
Income taxes		57,823	117,123
Income (loss) before extraordinary item	(86,280)	60,280	125,221
Reduction in income taxes on application of prior years' losses		57,359	116,730
Net income (loss)	(86,280)	117,639	241,951

*See Note 2.
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985	1984
Balance, beginning of year	812,026	717,915	524,354
Net income (loss)	(86,280)	117,639	241,951
	725,746	835,554	766,305
Dividend		23,528	48,390
Balance, end of year	725,746	812,026	717,915

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985	1984
Cash provided from (used for)			
Operating activities			
Net income (loss)	(86,280)	117,639	241,951
Non-cash charges to income			
Depreciation and amortization	311,807	282,817	261,444
Loss (income) of equity investees less dividends	1,055	308	(16,207)
Loss on disposal of investment		737	
Loss on disposal of CN Route	45,320		
Changes in working capital items*	(21,194)	(73,273)	11,017
Other	9,928	(72)	38,740
	260,636	328,156	536,945
Investing activities			
Additions to properties	(484,072)	(744,475)	(713,149)
Net proceeds from disposal of properties	48,094	39,670	31,874
Investments	(5,202)	(23,010)	(19,569)
Proceeds from sale of CN Marine Inc. and related assets	327,558		
Redemption of capital stock	(327,558)		
Proceeds from sale of investment		1,571	
Proceeds from sale of CN Route	23,000		
Working capital of previously consolidated entities	(7,633)		(15,855)
	(425,813)	(726,244)	(716,699)
Dividend		(23,528)	(48,390)
Cash used before financing activities	(165,177)	(421,616)	(228,144)
Cash (bank indebtedness) beginning of year	(152,719)	(91,687)	58,944
	(317,896)	(513,303)	(169,200)
Financing activities			
Issuance of long-term debt	435,492	597,060	132,140
Reduction of long-term debt	(224,490)	(236,476)	(72,827)
Issuance of capital stock			18,200
	211,002	360,584	77,513
Bank indebtedness end of year	(106,894)	(152,719)	(91,687)

*Excluding cash, bank indebtedness, and current portion of long-term debt.
See accompanying notes to consolidated financial statements.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Introduction

All references in these Notes to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and, unless the context otherwise requires, its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway, telecommunications and other property entrusted by the Government of Canada to the Company for management and operation. A division designated in the Consolidated Statement of Income as an "Imposed public duty", as is TerraTransport, is one whose operations are continued by the Company in accordance with directions from the Government of Canada despite the fact that such continued operations are contrary to the economic interests of the Company.

(a) Principles of Consolidation

With the exception of Coastal Transport Limited, the consolidated financial statements include the accounts of all subsidiaries and the Company's share of the assets, liabilities, revenues and expenses of CNCP Telecommunications which is accounted for by the proportionate consolidation method; CN's share in the activities of CNCP Telecommunications represents slightly less than 60 percent of the activities of CN Communications. Also, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada are included in the consolidated financial statements. Coastal Transport Limited and the net assets of the Company's dockyard operation in Newfoundland, which formerly formed part of the consolidation, have been included in investments in anticipation of their forthcoming divestiture.

Investments in entities in which the Company has less than a majority interest are accounted for by the equity method, where appropriate.

(b) Reporting by Division

In presenting the results by division, charges for services performed by one division for another, which are made generally at market value, have not been eliminated. Consolidated net income is not affected by this practice.

(c) Material and Supplies

The inventory is valued at laid down cost based on weighted average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

(d) Properties

Accounting for railway and telecommunications properties is carried out in accordance with rules issued by the Canadian Transport Commission and the Canadian Radio-television and Telecommunications Commission respectively (Canadian properties), and the Interstate Commerce Commission (United States properties). Generally, major additions and replacements are capitalized and interest costs are charged to expense.

The cost of depreciable railway and telecommunications assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation. Other depreciable assets retired or disposed of are accounted for in accordance with the unit plan whereby gains or losses are taken into income as they occur.

The Company follows the successful efforts method of accounting for its oil and gas operations whereby the acquisition costs of oil and gas properties, the costs of successful exploratory wells and the costs of drilling and equipping development wells are capitalized.

(e) Depreciation

Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis. For railway and telecommunications properties, rates are authorized by the Canadian Transport Commission, the Canadian Radio-television and Telecommunications Commission and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	2.89%
Rails	1.87%
Other track material	2.23%-2.83%
Ballast	2.76%
Road locomotives	5.23%
Freight cars	1.73%-3.18%
Commercial communication systems	6.40%

Hotel properties are depreciated at annual rates of 1% to 10%.

Acquisition costs of oil and gas properties are amortized on a straight-line basis over the term of the lease until such time as they are determined to be productive or judged to be impaired. Acquisition costs of productive properties and costs of successful exploratory drilling and of drilling and equipping development wells are charged against income on the unit-of-production method based upon proven reserves of oil and gas. Exploratory dry hole and acquisition costs judged to be impaired are charged against income in the current period. Other exploratory expenditures are charged against income as incurred.

(f) Transportation Revenues

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Costs associated with uncompleted movements are generally deferred.

(g) Pensions

Current service costs are charged to operations as they accrue. Past service costs are charged to operations in annual amounts covering principal and interest over varying periods.

The funding payments are determined in accordance with the accrued benefit actuarial cost method.

(h) Foreign Exchange

The Company's foreign operations are classified as integrated and are translated and accounted for on the following bases. Current assets (excluding material and supplies), current liabilities and long-term debt are translated at the rates in effect at the balance sheet date, whereas other assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates during the year except for depreciation which is translated at exchange rates prevailing when the related properties were acquired. The Company's own foreign denominated assets and liabilities are accorded similar treatment. Revenues and expenses are translated at rates prevailing at the time of the transactions except for revenues designated as a hedge against repayment of foreign denominated long-term debt which are translated at the rate in effect at the inception of the debt.

Currency gains and losses are reflected in net income for the year, except for unrealized foreign currency losses on long-term debt. The Company has designated future U.S. dollar revenue streams as a hedge against the repayment of long-term debt denominated in U.S. dollars, and has thus deferred reflecting the related unrealized foreign currency translation losses in net income until

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

the earlier of the debt repayment or the expiry of the hedge. Such deferred amounts are included in the Consolidated Balance Sheet as part of Other Assets and Deferred Charges.

(i) Leases

Leases which satisfy the criteria for capital leases and which have been entered into after 1981 have been capitalized. Other leases, satisfying the criteria for capital leases but which were entered into prior to 1982, have been recorded as operating leases.

Note 2: Special charge and Discontinued Operations

(a) Special Charge

CN Rail expenses include a special charge of $60.2 million (1985—$40.4 million) relating to a provision for rationalization costs in connection with an ongoing program to reduce the size of the CN Rail work force.

(b) Discontinued Operations

During 1986 the Company disposed of its former division CN Route and its investment in CN Marine Inc. (see Note 6a)) and entered into negotiations for the disposition of its dockyard operations in Newfoundland. Details of the charges (income) incurred on these operations are as follows:

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
CN Route			
Operating loss	25,641	42,590	31,938
Loss arising from disposal	45,320		
	70,961	42,590	31,938
Dockyard			
Operating loss	4,530	2,933	1,796
Provision for loss arising from disposal	4,900		
	9,430	2,933	1,796
CN Marine Inc.—Income			(21,888)
Total discontinued operations	80,391	45,523	11,846

Note 3: Investments

	Percentage of Voting Interest	December 31 1986	1985
		(in thousands of dollars)	
Entities accounted for by equity method			
CNCP Niagara-Detroit Partnership	50%	17,834	23,741
The Toronto Terminals Railway Company	50%	10,682	10,682
Dockyard (see Note 1a))		26,417	
Other		11,253	16,528
		66,186	50,951
Other companies and investments, at cost less provisions for impairment where applicable			
CN Marine Inc. (see Note 6a))			324,136
Other		9,084	4,924
Total		75,270	380,011

Note 4: Properties

	1986 Cost	1986 Accumulated Depreciation	1986 Net	1985 Cost	1985 Accumulated Depreciation	1985 Net
	(in thousands of dollars)					
CN Rail	7,978,729	2,869,139	5,109,590	7,755,679	2,766,643	4,989,036
Grand Trunk Corporation	557,864	153,150	404,714	561,570	153,718	407,852
Enterprises group						
CN Communications	742,175	312,045	430,130	708,538	288,916	419,622
CN Hotels	236,247	75,551	160,696	217,059	72,351	144,708
CN Exploration	85,728	25,261	60,467	74,947	12,211	62,736
CN Real Estate	63,279	13,861	49,418	72,750	18,221	54,529
Other				17	4	13
TerraTransport	89,919	56,429	33,490	95,484	52,430	43,054
Discontinued operations						
CN Route				95,284	55,257	40,027
Dockyard				34,555	2,664	31,891
	9,753,941	3,505,436	6,248,505	9,615,883	3,422,415	6,193,468
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada	1,060,097	569,633	490,464	1,037,108	556,142	480,966

At December 31, 1986 the gross value of assets under capital leases included above was $119.4 million (1985—$108.4 million) and related accumulated amortization thereon amounted to $9.3 million (1985—$5.5 million).

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

Note 5: Long-Term Debt

	Maturity	Currency in which payable	December 31 1986	December 31 1985
			(in thousands of dollars)	
Bonds, Debentures and Notes				
Canadian National 8⅜%, 10 Year Bonds	Nov. 15, 1986	United States		83,232
Canadian National 8⅞%, 10 Year Bonds (b)	Mar. 1, 1987	Canadian	45,947	46,007
Canadian National 5%, 27 Year Bonds (a, b)	Oct. 1, 1987	Canadian	93,596	95,475
Canadian National 14⅝%, 10 Year Notes	Dec. 1, 1991	United States	117,817	117,817
Canadian National 11⅜%, 8 Year Notes	June 11, 1993	Canadian	100,000	100,000
Canadian National 9⅞%, 8 Year Notes	Mar. 18, 1994	Canadian	100,000	
Canadian National 12½%, 10 Year Notes	Apr. 15, 1995	Canadian	100,000	100,000
Canadian National 6½%, 10 Year Japanese Yen Notes (c)	Mar. 26, 1996	Canadian	70,000	
Canadian National 9⅜%, 10 Year Notes	Oct. 1, 1996	Canadian	100,000	
Canadian National 9¼%, 20 Year Sinking Fund Debentures	Mar. 15, 1998	United States	106,826	115,729
Canadian National 5⅜%, 15 Year Swiss Franc Bonds (d)	Aug. 22, 2000	Canadian	98,617	98,617
Canadian National 8⅞%, 15 Year Notes	May 21, 2001	Canadian	150,000	
Canadian National 8⅜%, 25 Year Sinking Fund Debentures	July 1, 2002	United States	84,748	90,045
Canadian National 9.70%, 25 Year Sinking Fund Debentures	July 15, 2004	United States	174,940	174,940
Canadian National 13%, 20 Year Sinking Fund Debentures	Nov. 15, 2004	Canadian	100,000	100,000
Canadian National 12¼%, 20 Year Sinking Fund Debentures	May 1, 2005	Canadian	125,000	125,000
Canadian National 14%, 25 Year Sinking Fund Debentures	Jan. 15, 2006	United States	178,783	178,783
Canadian National 15%, 25 Year Sinking Fund Debentures	June 1, 2006	United States	181,238	181,238
Canadian National 16¼%, 25 Year Sinking Fund Debentures	Mar. 1, 2007	United States	183,053	183,053
Canadian National 14¾%, 30 Year Sinking Fund Debentures	Sept. 1, 2012	United States	247,984	247,984
Canadian National 12%, 30 Year Sinking Fund Debentures	Mar. 15, 2013	United States	122,548	122,548
Buffalo and Lake Huron 5½%, 1st Mortgage Bonds	Perpetual	Sterling	795	795
Buffalo and Lake Huron 5½%, 2nd Mortgage Bonds	Perpetual	Sterling	1,228	1,228
Total Bonds, Debentures and Notes			2,483,120	2,162,491
Government of Canada Loan and Advances (e)				
Government of Canada loan		Canadian	195,169	251,565
Canadian Government Railways advances for working capital		Canadian	13,918	14,004
Total Government of Canada Loan and Advances			209,087	265,569
Other				
Amounts owing under equipment purchase agreements (f)		United States	162,736	187,613
Swiss borrowings (g)		Swiss Francs	64,684	64,684
Syndicated loan (h)		Canadian	42,610	42,610
Capital lease obligations (i)		Various	108,895	99,405
Promissory note 9⅝% (j)		Canadian	778	1,116
Income debenture (k)		Canadian	8,065	8,065
Adjustment to current exchange rate (see Note 1(h))			285,794	356,277
Total Other			673,562	759,770
			3,365,769	3,187,830
Less: current portion of long-term debt			305,812	223,885
miscellaneous			7,471	15,598
			313,283	239,483
Long-Term Debt			3,052,486	2,948,347

(a) Guaranteed by the Government of Canada.

(b) These bonds are subject to repurchase arrangements.

(c) The Company borrowed $70.0 million at an all-in cost of 10.25% by means of a Euro-yen public note issue and a currency swap.

(d) The Company borrowed $98.6 million at an all-inclusive cost of 11.17% by means of a public bond issue in Switzerland and a currency swap.

(e) $195.2 million of the Government of Canada loan bears interest at 8¾% per annum and is payable in equal semi-annual payments of $13.63 million covering principal and interest to June 30, 1998. The weighted average interest rate on the $195.2 million loan and the advances outstanding at December 31, 1986 and 1985, was approximately 8.2% per annum.

(f) Secured by rolling stock and payable by semi-annual or quarterly instalments over various periods to 1995 at interest rates ranging from 8% to 17¾%. As at December 31, 1986, the principal amounts are payable as U.S. $144.4 million (December 31, 1985—U.S. $167.6 million).

(g) A private placement of 100 million Swiss Francs bearing interest at 5⅛%, due on March 16, 1988, will be repaid on March 16, 1987.

(h) The Company borrowed $42.6 million at an all-inclusive cost of 11.535% by means of a yen syndicated loan and currency swap.

(i) Interest rates for these leases range from approximately 8⅞% to 15⅞% with expiry dates occurring during the years 1987 through 2004. The imputed interest on these leases amounts to $116.2 million (1985—$113.4 million).

(j) Repayable by semi-annual instalments of $218,503, including principal and interest, to August 1, 1988.

(k) Payment of non-cumulative annual interest at 16.55% and repayment of principal during the term and at maturity of the debenture in 2008 are subject to certain conditions.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

(l) Principal repayments, including sinking fund repayments, repurchase arrangements and capital lease repayments, on debt outstanding at December 31, 1986, are as follows:

	Year ending December 31 (in thousands of dollars)
1987	305,812
1988	75,244
1989	76,913
1990	79,437
1991	242,330
1992-1996	1,128,031
1997-2001	808,928
2002-2006	446,553
2007-2011	103,537
2012-2013	47,627

Note 6: Shareholder's Equity

(a) Capital stock

The capital stock of Canadian National Railway Company is as follows:

	Number of Shares	(in thousands of dollars)
Commons Shares of No Par Value Authorized, Issued and Outstanding		
December 31, 1985	6,523,902	2,606,425
Less: shares cancelled in December 1986 in consideration of transfer of all the common shares of CN Marine Inc. and certain assets held by the Company to the Government of Canada pursuant to the enactment on June 27, 1986 of the Marine Atlantic Inc. Acquisition Authorization Act which Act also changed the name CN Marine Inc. to Marine Atlantic Inc.	655,116	327,558
December 31, 1986	5,868,786	2,278,867

(b) Retained Earnings

Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct.

Note 7: Major Commitments

(a) Leases

(i) The Company's commitments as at December 31, 1986, under leases, excluding those which have been capitalized and for which the lease obligations are recorded as long-term debt (see Note 5), are as follows:

Non-Cancellable Leases

	Pre-1982 Capital Leases	Operating Leases
	Year ending December 31	
	(in thousands of dollars)	
1987	45,003	78,264
1988	41,850	73,039
1989	33,786	64,956
1990	14,099	40,678
1991	6,073	35,867
1992-1996	10,265	135,667
1997-2001	3,385	26,309
thereafter	853	5,182
Total minimum lease payments	155,314	459,962
Less amount representing imputed interest	31,368	
Present value of net minimum lease payments under capital leases	123,946	

A significant portion of the leases is in respect of railway rolling stock and many of them provide renewal options and an option to purchase the property at fair market value at the end of the lease term.

(ii) Rental expenses under all lease arrangements which have not been capitalized were:

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
Total expenses	178,034	187,949	197,041
Expenses under pre-1982 capital leases included in total expenses	46,825	50,863	49,380

(iii) Increases in income, assets and liabilities in the consolidated financial statements, which would have arisen if leases entered into prior to 1982 and which satisfied the criteria for capital leases had been capitalized, are as follows:

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
Net increase in income	11,609	10,776	3,036
Increase in Assets			
Properties			
Leased properties under capital leases	194,092	238,429	266,384
Less accumulated amortization	128,565	156,672	165,731
	65,527	81,757	100,653
Other assets and deferred charges			
Unamortized deferred exchange loss	3,869	17,689	23,323
	69,396	99,446	123,976
Increase in Current Liabilities			
Present value of obligations under capital leases	33,935	33,387	33,954
Increase in Non-Current Liabilities			
Present value of obligations under capital leases	101,622	127,180	154,832
Adjustment to current exchange rate (see Note 1(h))	22,324	30,699	31,097
	123,946	157,879	185,929
Less current portion	33,935	33,387	33,954
	90,011	124,492	151,975

(b) Other

The Company has commitments at December 31, 1986, for capital expenditures of $29.3 million for railway ties and $50.4 million for rolling stock.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

Note 8: Subsidies

Revenues include the following subsidies:

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
Government of Canada			
(a) Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	39,641	37,151	48,762
(b) Interim payments to partially offset revenue shortfalls associated with the cost of carrying grain at uneconomic statutory rates			8,660
(c) Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	18,735	20,460	20,727
(d) Sundry	2,502	6,074	2,433
Other assistance	163	167	168
	61,041	63,852	80,750

Note 9: Pensions

The Company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age generally based on compensation and length of service and/or contributions. Annual pension costs were:

Year ended December 31		
1986	1985	1984
(in thousands of dollars)		
194,425	139,956	167,156

The effect of the most recent actuarial valuations reduced 1986 pension costs by \$0.8 million (1985—\$58.6 million, 1984—\$46.4 million).

Total past service costs (surplus) remaining to be charged to operations based on the latest actuarial valuation at the time adjusted for subsequent changes, were:

	December 31		
	1986	1985	1984
	(in thousands of dollars)		
Canadian plans	1,530,194	1,528,639	1,480,297
U.S. plans	(11,155)	13,281	13,347
	1,519,039	1,541,920	1,493,644

The past service costs relating to the Canadian plans at December 31, 1986 will be charged to operations in annual amounts, including principal and interest, as follows:

	Annual Cost (in thousands of dollars)
1987	126,204
1988	124,169
1989	123,982
1990	124,422
1991	130,060
1992	135,970
1993	118,168
1994	120,102
1995	126,244
1996	126,980
1997	125,610
1998	123,825
1999	126,436
2000	136,757
2001	154,847
2002	163,364
2003	172,349
2004	181,828
2005	191,828
2006	202,379

In 1986 the new recommendations on Employers' Accounting for Pensions from the Financial Accounting Standards Board were adopted for the U.S. plans. This resulted in a surplus of approximately \$11.2 million which is amortized at an annual rate of \$0.8 million including principal and interest to the year 2000 inclusive.

For the year 1986 and 1985 funding exceeded the charge to operations by \$16.8 million and \$88.5 million respectively, whereas in 1984 charges to operations exceeded funding by \$36.6 million. The cumulative excess of charges to operations over funding requirements amounts to \$12.9 million (1985—\$29.7 million) and is included in Other Liabilities and Deferred Credits.

Note 10: System Interest Expense

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
Interest			
Total interest on long-term debt	380,977	333,574	281,097
Amortization of foreign exchange on long-term debt*			65,427
Interest on short-term borrowings	6,889	5,381	15,907
Interest income	(5,567)	(2,713)	(13,320)
	382,299	336,242	349,111

* Pursuant to the hedging of foreign currency long-term debt (Note 1(h)), the reduction of the deferred foreign exchange loss, which in 1986 amounted to \$30.9 million (1985—\$12.8 million), has been shown as a reduction of CN Rail revenues.

Note 11: Income Taxes

(a) The Company has timing differences of approximately \$500 million which are available to reduce taxable income of future years. Of that amount, about \$268 million is due to the excess of the undepreciated capital cost for income tax purposes over the net book value of depreciable assets.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

(b) Investment tax credits are also available to reduce future income taxes otherwise payable until the related year of expiry:

Year of Expiry	(in millions of dollars)
1987	32.0
1988	4.2
1990	25.7
1991	33.6
1992	29.7
1993	17.2

The Company is eligible for a refund of 20% of the current year's investment tax credits in respect of qualified expenditures and has recognized the resulting benefit as a reduction of such expenditures.

(c) The Company's provision for income taxes is made up as follows:

	Year ended December 31		
	1986	1985	1984
	(in thousands of dollars)		
Provision for (recovery of) income taxes based on combined basic Canadian federal and provincial tax rate of 49.8% (1985—48.9%, 1984—48.0%)	(42,967)	57,752	116,325
Increase (decrease) in taxes resulting from			
Non-allowable scientific research expenditures, net of proceeds from sale of related tax credits			5,469
Non-taxable portion of capital gain on disposals of discontinued operations	(21,631)		
Non-allowable foreign exchange loss on conditional sale agreements	1,535	437	
Refundable investment tax credits			(4,224)
Profit on sale of land	(2,528)	(2,874)	(4,076)
Unapplied losses	62,256		
Other	3,335	2,508	3,629
Actual provision for income taxes resulting in an effective tax rate of nil (1985—49.0%, 1984—48.3%)		57,823	117,123

Note 12: Segmented Information

(a) Geographic Areas

Virtually all of the System's operations and assets are within Canada with the exception of Grand Trunk Corporation which operates in the United States.

(b) International Traffic

In addition to the revenue generated by Grand Trunk Corporation, the System derives revenue from traffic originating or terminating on railroads in the United States. In 1986, such revenues approximated $587 million (1985—$628 million, 1984—$662 million).

(c) Revenues by Division

	December 31		
	1986	1985	1984
	(in thousands of dollars)		
CN Rail	3,652,655	3,753,190	3,787,251
Grand Trunk Corporation	531,399	551,782	524,035
Enterprises group:			
CN Communications	303,384	303,930	287,786
CN Hotels	146,911	129,846	102,186
CN Exploration	33,869	56,730	31,873
CN Real Estate	35,157	29,582	30,544
Other	20,989	11,224	13,355
TerraTransport	25,002	25,919	33,365
Discontinued operations:			
CN Route	123,643	144,681	163,427
Dockyard	8,786	10,906	13,702
	4,881,795	5,017,790	4,987,524

(d) Identifiable Assets by Division

	December 31		
	1986	1985	1984
	(in thousands of dollars)		
CN Rail	6,301,242	6,496,422	5,887,685
Grand Trunk Corporation	630,428	633,296	605,774
Enterprises group			
CN Communications	506,242	498,873	502,858
CN Hotels	196,443	179,954	163,682
CN Exploration	68,583	73,401	42,522
CN Real Estate	79,253	81,982	69,140
Other	8,119	4,898	5,417
TerraTransport	52,304	56,906	60,326
Discontinued operations			
CN Route		76,493	92,513
Dockyard		36,556	36,694
	7,842,614	8,138,781	7,466,611

CANADIAN NATIONAL RAILWAY SYSTEM—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Concluded*

(e) Capital Expenditures and Depreciation by Division

	Year ended December 31					
	Capital Expenditures*			Depreciation		
	1986	1985	1984	1986	1985	1984
	(in thousands of dollars)					
CN Rail	356,746	594,303	597,270	212,305	196,297	184,416
Grand Trunk Corporation	21,990	20,903	18,231	18,773	13,593	12,772
Enterprises group						
CN Communications	58,152	64,658	54,061	47,492	46,192	42,323
CN Hotels	22,734	20,562	14,728	6,728	6,219	5,725
CN Exploration	10,859	33,283	16,987	13,093	6,994	2,992
CN Real Estate	13,720	5,687	231	815	1,026	709
Other		13	4	3	4	5
TerraTransport	5	3,037	2,912	5,964	5,443	5,237
Discontinued operations						
CN Route		925	8,223	5,174	5,490	5,741
Dockyard	(134)	1,104	502	1,004	1,061	1,030
	484,072	744,475	713,149	311,351	282,319	260,950

*Represents additions to property, plant and equipment.

Note 13: Other Matters

(a) The Company carries on ordinary business transactions with various entities controlled by the Government of Canada on the same terms and conditions as current transactions with unrelated parties.

In addition, the Company provides, under contractual arrangements, rail transportation and maintenance services to the Government of Canada and to entities controlled by the latter. The revenue derived from such services rendered in 1986 aggregated $203.0 million (1985—$320.0 million, 1984—$351.8 million).

(b) Following enactment of the Western Grain Transportation Act, which became effective on January 1, 1984, the Government of Canada, in order to minimize the cost to grain shippers, pays a portion of the cost of shipping grain. Amounts received from the Government of Canada under the Western Grain Transportation Act amounted to $378.0 million in 1986 (1985—$278.9 million, 1984—$331.9 million), a reflection of the volume of grain handled.

(c) Commencing in 1977, the Government of Canada has agreed to pay to the Company, by way of capital grants not exceeding $557.9 million, certain amounts with respect to expenditures incurred in carrying out rehabilitation programs for branch lines in Western Canada. Total payments received up to December 31, 1986, amounted to $431.4 million of which $34.5 million was received in 1986 (1985—$43.7 million).

(d) As part of a program commenced in 1981 for the testing and evaluation of railway operations in Newfoundland, the Government of Canada reimbursed CN for certain costs. Total billings under this program amounted to $5.3 million in 1986 (1985—$7.6 million).

Note 14: Reclassification of Comparative Figures

During 1986, changes were made to improve the classification of certain items and for comparative purposes the 1985 and 1984 figures have been reclassified.

SUMMARY PAGE

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LTD.

MANDATE

To collect monies due to it from the sale of eight steamships to Cuban interests.

BACKGROUND

The corporation, which provided a steamship service to the West Indies, has been inactive since 1958 when its fleet of ships was sold to Banco Cubana of Havana. In 1959, the corporate management was transferred to federal government officials for the purpose of collecting the proceeds from the sale. An irrevocable letter of credit issued through the Bank of America to cover the final principal payment was not honoured because of the imposition of the Cuban Assets Control Regulations by the U.S. government on July 3, 1963. The sole purpose of maintaining the company has been to collect the outstanding principal plus interest, totalling $1.1 million as of December 31, 1986. Authority to dissolve the corporation was given in the *Crown Corporations Dissolution Authorization Act*, which received Royal Assent on October 29, 1985. The corporation will not be dissolved until the Bank of America provides assurances that payment would be made to Her Majesty in right of Canada.

CORPORATION DATA

HEAD OFFICE	Tower C Place de Ville Ottawa, Ontario K1A 0N5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1927; created by CNR in 1927 under the *Dominion Companies Act* and continued under the *Canada Business Corporations Act*, November 21, 1978.
CHIEF EXECUTIVE OFFICER	N. Van Duyvendyk
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983
At the end of the year				
Total Assets	1.1	1.1	1.0	0.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.3	0.3	0.3	0.3
Equity of Canada	0.8	0.7	0.6	0.6
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Canadian National (West Indies) Steamships Ltd. as at December 31, 1986 and the statement of income and retained earnings for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act and the by-laws of the corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 9, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Cash	1,465	1,452
Deposit with Receiver General for Canada	95,000	95,000
Blocked funds (Note 2)	1,074,430	976,889
	1,170,895	1,073,341

LIABILITIES	1986	1985
	$	$
Matured bonds—Unclaimed (Note 3)	14,025	14,025
Due to Canada (Note 4)	324,024	324,024
	338,049	338,049
EQUITY OF CANADA		
Capital stock		
Authorized and issued		
10 Class A shares without nominal or par value	976	976
Retained earnings	831,870	734,316
	832,846	735,292
	1,170,895	1,073,341

Approved by the Board of Directors:

NICK VAN DUYVENDYK
Chairman

LARRY MARKS
Director

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.—*Concluded*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Interest income	97,584	98,351
Filing fee and bank charges	30	40
Net income for the year	97,554	98,311
Retained earnings at beginning of the year	734,316	636,005
Retained earnings at end of the year	831,870	734,316

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1986

1. Authority and activities

The Corporation is continued under the Canada Business Corporations Act and is a parent Crown corporation named in Schedule C Part I to the Financial Administration Act. It ceased all active operations in 1957, at which time it sold its fleet of eight vessels to Cuban interests.

On October 29, 1985, Parliament passed the Crown Corporations Dissolution Authorization Act which authorized the Minister of Finance to dissolve the Corporation.

An assignment has been prepared in which the Corporation transfers to Her Majesty in Right of Canada all its rights and interests in, to or arising out of the letter of credit referred to in Note 2 below. However, this document has not yet been executed since the consent from BankAmerica International to this assignment and their acknowledgement that payment under the letter of credit will be made to Her Majesty in Right of Canada, have not yet been received.

Accordingly, the Corporation remains to be dissolved and as such the blocked funds are still recorded as an asset of the Corporation.

The dissolution process will be completed when the consent and acknowledgement are received from BankAmerica International.

2. Blocked funds

The final installment of $470,400 on the sale of the eight vessels to Cuban interests was due to be paid August 19, 1963 by an irrevocable letter of credit issued through BankAmerica International (then known as Bank of America). However, on July 3, 1963, the United States Cuban Assets Control Regulations became effective and prohibited the Bank from honouring payment of the draft. Amendments to the Regulations, effective March 2, 1979 required blocked funds to be held in an interest-bearing account. At December 31, 1986, accrued interest amounted to $604,030 (1985—$506,489).

Negotiations to obtain a preferred status in order to receive the blocked funds have not been successful. In the opinion of management, based on legal counsel, these funds will be collected when the Regulations are repealed by the United States. A waiver of the application of the statute of limitations has been obtained until January 1, 1989, and further extensions will be obtained as required.

Since 1984, the BankAmerica International has withheld 15% of interest earned on the funds blocked at the Bank by the Cuban Asset Regulations as a tax on non-resident earnings. To date $46,518 has been withheld including interest of $8,069. In management's opinion, the tax exempt status of the Corporation is preserved in the United States by the Tax Convention of 1984. Therefore, amounts withheld and the interest forgone thereupon have been included in income and assets and accordingly no liability recorded.

3. Matured bonds—Unclaimed

The matured bonds have been unclaimed since March 1, 1955 and as a result of the statute of limitations there is no legal obligation to redeem them. However, the Corporation intends to honour any of the outstanding bonds should they be presented.

4. Due to Canada

The advances from Canada bear no interest and are repayable when the blocked funds are received.

SUMMARY PAGE

CANADIAN PATENTS AND DEVELOPMENT LIMITED

MANDATE

To secure optimum benefits to Canada from commercially utilizable technology accruing to the Crown from expenditure of federal funds.

BACKGROUND

The corporation makes available to the public the industrial and intellectual property resulting from government-funded research and development. It makes licensing arrangements with industry and monies received thereby are used to cover most of its operating expenses. Awards are paid to inventors under the *Public Service Inventors Act*.

CORPORATION DATA

HEAD OFFICE	275 Slater Street Ottawa, Ontario K1A 0R3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Robert R. de Cotret, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion and Science and Technology
YEAR AND MEANS OF INCORPORATION	1947; by letters patent under the *Companies Act*; continued under the *Canada Business Corporation Act* in 1979.
CHIEF EXECUTIVE OFFICER (ACTING)	W. Dallas Gordon
CHAIRMAN	Jacques A. Léger
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	0.8	1.1	1.3	1.7
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	negl.	0.4	0.7	0.9
Cash from Canada in the period				
— budgetary	0.5	0.4	0.4	0.4
— non-budgetary	nil	nil	nil	nil

CANADIAN PATENTS AND DEVELOPMENT LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF REGIONAL INDUSTRIAL EXPANSION

I have examined the balance sheet of Canadian Patents and Development Limited as at March 31, 1987 and the statements of operations and surplus (deficit) and changes in cash resources for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act and by-laws of the Corporation.

D. L. Meyers, C.A.
Deputy Auditor General
for the Auditor General

Ottawa, Canada
June 5, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash	322,832	121,844
Term deposits		200,000
Accounts receivable	512,102	523,933
Accrued interest	1,212	3,530
Prepaid expenses	13,623	10,924
	849,769	860,231
Investment in Canada bonds (market value: 1986—$241,250)		247,500
Industrial and intellectual property rights (Notes 2, 3 and 5)	1	1
Experimental equipment on loan to a licensee (Note 2 and 4)	1	1
	849,771	1,107,733

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued liabilities	529,183	405,329
Royalties received in advance	124,226	102,675
	653,409	508,004
Provision for employee termination benefits	211,954	193,774
	865,363	701,778
EQUITY (DEFICIENCY) OF CANADA		
Capital stock		
Authorized—10,000 shares of no par value		
Issued—5,000 shares fully paid	296,199	296,199
Surplus (deficit)	(311,791)	109,756
	(15,592)	405,955
	849,771	1,107,733

Approved by the Board:

J. A. LÉGER
Director

W. F. GRAYDON
Director

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT) FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Revenue		
Royalties	1,640,384	1,567,442
Interest on investments	36,103	66,220
Service charges under agency agreements	53,976	32,823
Interest on overdue accounts	3,564	27,010
Miscellaneous	7,642	5,466
	1,741,669	1,698,961
Expenses		
Salaries and employee benefits	1,221,757	1,205,956
Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection (Note 5)	576,030	479,417
Accommodation, equipment and other rentals	210,995	206,809
Amounts paid or owed to third parties in respect of royalty revenue	198,809	111,103
Awards to inventors	107,169	104,606
Provision for doubtful accounts	89,301	2,771
Office supplies, printing, furnishings and equipment	63,284	58,527
Professional and special services	57,865	37,275
Communications	41,134	36,016
Legal fees	38,403	59,517
Travel and removal	34,654	34,291
Miscellaneous	1,815	1,488
	2,641,216	2,337,776
Cost of operations	899,547	638,815
Parliamentary appropriation	478,000	350,000
Excess of cost of operations over parliamentary appropriation for the year	(421,547)	(288,815)
Surplus at beginning of the year	109,756	398,571
Surplus (deficit) at end of the year	(311,791)	109,756

STATEMENT OF CHANGES IN CASH RESOURCES FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Cash used in operating activities		
Cost of operations	899,547	638,815
Items not requiring cash		
Provision for employee termination benefits	(18,180)	(20,147)
Loss on disposal of Canada bonds	(3,750)	
	877,617	618,668
Cash used in (provided by) non-cash working capital components		
Accounts receivable	(11,831)	175,469
Other current assets	381	(4,147)
Accounts payable and accrued liabilities	(123,854)	(3,864)
Royalties received in advance	(21,551)	(49,113)
	(156,855)	118,345
Payment of employee termination benefits		2,375
Cash used in operating activities	720,762	739,388
Cash provided by financing activities		
Parliamentary appropriation	478,000	350,000
Cash provided by investing activities		
Proceeds from sale of Canada bonds	243,750	
Increase (decrease) during the year	988	(389,388)
Cash and term deposits at beginning of year	321,844	711,232
Cash and term deposits at end of year	322,832	321,844

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority and operations

Canadian Patents and Development Limited is a Crown corporation named in Part I of Schedule C to the Financial Administration Act and is incorporated under the Canada Business Corporations Act. The Corporation was established to make available to the public, through licensing arrangements with industry, the industrial and intellectual property which results from publicly-funded research and development.

The Corporation receives and processes industrial and intellectual property under arrangements with federal government departments, Crown corporations and agencies, universities, and other publicly-financed institutions. Suitable protection is sought in Canada and other countries for such property in instances where there is a promise of commercial use. In respect of money received from the exploitation of such property, the Corporation pays awards to public servants under the Public Servants Inventions Act and makes payments to other originators of such property in accordance with the agreements entered into with them.

2. Significant accounting policies

Industrial and intellectual property rights

Industrial and intellectual property rights are recorded at a nominal value of $1. The net cost of acquisition, protection and maintenance of industrial and intellectual property rights is charged to operations as incurred (Notes 3 and 5).

Experimental equipment on loan to a licensee

Experimental equipment on loan to a licensee is recorded at a nominal value of $1. The cost of this equipment is charged to operations in the year of acquisition.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the cost of the Plan under present legislation are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

3. Industrial and intellectual property rights

The accumulated cost of current inventory of unexpired patent and other rights in respect of industrial and intellectual property amounts to $3,399,799 (1986—$2,884,259).

4. Experimental equipment on loan to a licensee

The accumulated cost of experimental equipment purchased under active development contracts and held by a licensee amounts to $123,500 (1986—$123,500).

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

5. Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection

	1987	1986
	$	$
Fees and related expenses	793,838	661,420
Less: recoveries	217,808	182,003
	576,030	479,417

6. Lease commitments

Under a lease agreement dated September 30, 1983 the Corporation pays an annual rent of $169,425 for accommodation. The period covered by this agreement is November 1, 1983 to October 31, 1988.

SUMMARY PAGE

CANADIAN SALTFISH CORPORATION

MANDATE

To regulate interprovincial and export trade in saltfish from participating provinces (Quebec - Lower North Shore, and Newfoundland) to improve earnings of primary producers of cured cod fish.

BACKGROUND

By its enabling legislation, the corporation must buy all saltfish offered to it which is of reasonable quality, and must conduct its operations on a self-sustaining basis without appropriations.

CORPORATION DATA

HEAD OFFICE	Saltfish Building Torbay Road P.O. Box 6088 St. John's, Newfoundland A1C 5X8
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas E. Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
YEAR AND MEANS OF INCORPORATION	1970; by the *Saltfish Act* (R.S.C. 1970, 1st supplement, C.37).
CHIEF EXECUTIVE OFFICER	W.R. Moyse
CHAIRMAN	James G. Barnes
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Total Assets	24.4	16.6	14.5	18.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	24.0	17.4	12.3	14.1
Equity of Canada	(4.2)	(5.4)	(3.3)	0.4
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	6.6	5.1	(1.8)	5.7

CANADIAN SALTFISH CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF FISHERIES AND OCEANS

I have examined the balance sheet of the Canadian Saltfish Corporation as at March 31, 1987 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Saltfish Act and the by-laws of the Corporation, except for the activities involving frozen fish products described in Note 1 to the financial statements. In my opinion, these activities are not within the powers of the Corporation under the Saltfish Act.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 29, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash	542,565	630,486
Accounts receivable	8,202,256	8,043,817
Inventories (Note 3)	12,898,236	5,684,365
Advances to frozen fish producers (Note 4)	451,575	118,304
	22,094,632	14,476,972
Long-term (Note 5)		
Long-term receivable	972,600	1,080,973
Fixed (Note 6)		
Land, buildings and equipment	3,382,286	2,929,824
Less: accumulated depreciation	2,084,361	1,893,218
	1,297,925	1,036,606
	24,365,157	16,594,551

LIABILITIES	1987	1986
	$	$
Current		
Working capital loans from Canada (Note 7)	23,500,000	16,750,000
Accounts payable and accrued liabilities	4,275,725	4,364,408
Current portion of capital asset loans from Canada	150,000	150,000
	27,925,725	21,264,408
Long-term		
Capital asset loans from Canada, net of current portion (Note 7)	350,000	500,000
Accrued employee termination benefits	307,081	257,024
	657,081	757,024
DEFICIT OF CANADA		
Deficit	(4,217,649)	(5,426,881)
	24,365,157	16,594,551

Approved by the Board:

J. BARNES
Director

W. R. MOYSE
Director

CANADIAN SALTFISH CORPORATION—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Saltfish products		
Sales	39,338,151	28,944,764
Less: freight and insurance	1,897,554	2,043,916
	37,440,597	26,900,848
Cost of goods sold		
Production costs	30,057,154	23,649,233
Transportation, storage and packaging	1,744,357	1,473,439
Other buying costs	1,067,821	910,895
	32,869,332	26,033,567
Gross profit on saltfish products	4,571,265	867,281
Frozen fish (Note 1)		
Sales	36,411,944	18,639,624
Cost of goods sold	36,411,944	18,639,624
Gross profit on frozen fish		
Gross profit before expenses	4,571,265	867,281
Expenses		
Interest—Long-term	63,500	84,878
—Current (Net of recoveries of $663,031; 1986—$663,336) (Note 1)	1,083,285	732,656
Net interest expense	1,146,785	817,534
Loss (gain) on foreign exchange	201,430	(207,750)
Selling (Net of recoveries of $1,083,234; 1986—$646,567) (Note 1)	658,609	714,351
Administrative (Net of recoveries of $152,627; 1986—$97,082) (Note 1)	735,209	656,955
	2,742,033	1,981,090
Net profit (loss) on operations	1,829,232	(1,113,809)
Additional contributions to primary producers of cured codfish	620,000	
Unusual item		
Bad debt allowance		1,000,000
Net profit (loss) for the year	1,209,232	(2,113,809)

STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at beginning of the year	(5,426,881)	(3,313,072)
Net loss for the year	1,209,232	(2,113,809)
Balance at end of the year	(4,217,649)	(5,426,881)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Funds were provided by (used for)		
Financing activities		
Increase in working capital loans from Canada	6,750,000	5,250,000
Repayment of capital asset loans from Canada	(150,000)	(185,000)
	6,600,000	5,065,000
Operating activities		
Net profit (loss) for the year	1,209,232	(2,113,809)
Adjustments for non-cash items		
Depreciation	196,954	147,812
(Gain) loss on sale of fixed assets	(3,234)	4,264
Employee termination benefits	50,057	25,078
	1,453,009	(1,936,655)
(Increase) in trade balances	(472,020)	(132,728)
(Increase) in inventories	(7,213,871)	(2,276,316)
	(6,232,882)	(4,345,699)
Investing activities		
Purchase of fixed assets	(455,039)	(78,492)
Net funds provided (used)	(87,921)	640,809
Cash (bank overdraft) at beginning of the year	630,486	(10,323)
Cash at end of the year	542,565	630,486

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority, objectives and operations of the Corporation

The Canadian Saltfish Corporation was established by the Saltfish Act in 1970, to improve the earnings of the primary producers of cured codfish. The Corporation is a Crown corporation of Canada without share capital, named in Schedule C, Part I to the Financial Administration Act, is an agent of Her Majesty, and is required to conduct its operations in a self-sustaining financial basis. The Corporation is dependent on the Government of Canada for working capital and capital asset loans and is not subject to income taxes.

The Corporation has the exclusive right to trade in and market cured fish and its by-products in the Province of Newfoundland and the Lower North Shore of Quebec and is required to buy all cured codfish of an acceptable standard of quality offered for sale therein. Fish is purchased from fishermen, processed through agents of the Corporation and is subsequently marketed by the Corporation, primarily to foreign countries.

Traded fish and frozen fish products

The Corporation is involved in the role of marketing frozen fish products (traded fish) on behalf of independent producing companies for a commission. These transactions are recorded as sales and cost of goods sold in the statement of operations.

The Corporation also markets frozen fish products under contractual arrangements with a number of companies. Under these agreements, the Corporation may make advances based on the projected market value to the producer. The balance of the market value received by the producing company is determined by the ultimate selling price and all related expenses. For providing this service the Corporation recovers its direct costs, certain overhead expenses and charges interest on advances.

CANADIAN SALTFISH CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

In certain instances, in order to secure the Corporation's position against any possible third party claims against the producer, the Corporation takes title to the product when it leaves the plant. These sales and related cost of goods sold are recorded as offsetting amounts in the statement of operations. The agreement with the producing company attributes any gain or loss on the ultimate sale of the product to the producer.

The total frozen fish sales that the Corporation was involved in marketing are as follows:

	1987	1986
	$	$
Traded frozen fish products	1,870,859	1,879,214
Frozen fish products	34,541,085	16,760,410
	36,411,944	18,639,624

In addition, the Corporation was involved in the marketing of $9,730 (1986—$1,318,805) of frozen fish products where title did not pass. These sales and related cost of goods sold were not recorded in the statement of operations.

2. Significant accounting policies

Depreciation

Depreciation is calculated on the straight-line method and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Equipment	3 to 10 years
Furniture and fixtures	5 years

Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the rate of exchange prevailing on the transaction date. The resulting foreign currency translation gains and losses are included in the results of operations.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employee and the Corporation. Contributions with respect to current services are expensed in the current period.

Employee termination benefits

Employees are entitled to specific benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

Additional contributions to primary producers of cured codfish

The Corporation purchases saltfish at initial prices established by the Board of Directors and obtains processing services at negotiated rates. Additional contributions, if any, to primary producers of cured codfish are determined by the Board based on the results of operations for the year. Contributions are charged to operations in the year in which they are approved for distribution.

3. Inventories

Inventories are made up of the following categories:

	1987	1986
	$	$
Saltfish, at lower of cost and net realizable value	1,723,546	3,407,328
Packages and supplies, at cost	468,235	390,516
Salt, at cost	247,739	228,870
	2,439,520	4,026,714
Frozen fish, at lower of cost and net realizable value	10,458,716	1,657,651
	12,898,236	5,684,365

4. Advances to frozen fish producers

Advances are secured by mortgages on plant and equipment and floating charges on other assets.

5. Long-term receivable

This receivable (net of a bad debt allowance of $1,000,000) has been outstanding since April 1984. During 1986 the Corporation secured a first mortgage on property owned by this account for the appraised value of the property, which was approximately $1,000,000. The Corporation has commenced legal proceedings to foreclose on this mortgage. Management is of the opinion that no further write-down is required at this time.

6. Fixed assets

	1987			1986
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Land	117,274		117,274	117,274
Buildings	1,027,213	422,651	604,562	604,031
Equipment	1,981,864	1,494,132	487,732	227,913
Furniture and fixtures	255,935	167,578	88,357	87,388
	3,382,286	2,084,361	1,297,925	1,036,606

7. Loans from Canada

Working capital loans are interest bearing (based upon current rates as set by the Bank of Canada) and are repayable within one year.

Total loans outstanding from Canada and banks shall not exceed $50 million.

Loans obtained to finance capital expenditures bear interest and are subject to repayment in ten equal annual instalments. Outstanding capital asset loans are as follows:

Due date	Interest rate	1987	1986
	%	$	$
March 27, 1989	10⅛	20,000	30,000
September 28, 1989	10	240,000	320,000
September 30, 1990	12⅜	240,000	300,000
		500,000	650,000
Less: current portion		150,000	150,000
		350,000	500,000

Repayment requirements over the next five fiscal years are $150,000 in 1988 and 1989; $140,000 in 1990 and $60,000 in 1991.

8. Related party transactions

The Corporation sold approximately $5.6 million of saltfish products to the Canadian International Development Agency. These transactions were in the normal course of business and at regular commercial rates.

9. Remuneration to foreign sales agents

During the year $115,021 (1986—$166,652) was paid to five foreign sales agents with whom the Corporation has commission agents' agreements. For reasons of commercial confidentiality the Corporation does not publish the names of its foreign sales agents.

10. Comparative figures

Certain comparative figures have been restated to conform to the current year's presentation.

SUMMARY PAGE

THE CANADIAN WHEAT BOARD

MANDATE

The Board's mandate is to market wheat, oats and barley grown in western Canada in the best interests of western Canada's grain producers. It administers the *Prairie Grain Advance Payments Act*.

BACKGROUND

The Board was established in 1935 by Act of Parliament and is now responsible for all exports of wheat, oats, and barley grown in a designated area which includes the prairie provinces and small parts of British Columbia. It is also responsible for sales of these grains for human consumption in Canada. The Board may sell domestic feed grains, but in general these sales are handled by producers themselves or by the private trade. The Board does not own or operate grain handling facilities. Co-operative and private companies handle Board grain as agents. The Board issues a government-guaranteed initial payment when the producer delivers grain. Receipts are pooled, and a final payment net of marketing costs is made after the full year's returns, by grain and grade, have been calculated. Deficits are rare but, if they occur they are, by statute, a charge upon the Consolidated Revenue Fund of Canada. The Board negotiates directly with customers, or through Accredited Exporters. Most sales are cash, but the Board does offer credit at commercial rates for up to three years if the credit is guaranteed by the Federal Government.

CORPORATION DATA

HEAD OFFICE	423 Main Street P.O. Box 816 Winnipeg, Manitoba R3C 2P5
STATUS	An agent of Her Majesty; exempted from the provisions of divisions I to IV of Part XII of the *Financial Administration Act*.
APPROPRIATE MINISTER	The Honourable Charles J. Mayer, P.C., M.P. Minister of State for Grains and Oilseeds.
YEAR AND MEANS OF INCORPORATION	1935; by *The Canadian Wheat Board Act* (R.S.C. 1970, C-12).
CHIEF EXECUTIVE OFFICER	W. Esmond Jarvis
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) The financial year ends July 31.

	1985-86	1984-85	1983-84	1982-83
At the end of the period				
Total Assets	5,234	5,210	5,030	4,297
Obligations to the private sector	5,060	4,694	4,259	3,816
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
—budgetary	58	131	121	119
—non-budgetary	nil	nil	nil	nil

THE CANADIAN WHEAT BOARD

AUDITORS' REPORT

TO THE CANADIAN WHEAT BOARD

We have examined the balance sheet of The Canadian Wheat Board as at July 31, 1986, and the statements of operations for the 1985-86 pool accounts for amber durum wheat, designated oats, barley and designated barley for the period August 1, 1985 to completion of operations on October 31, 1986, the statements of operations for the 1985-86 pool accounts for wheat and oats for the period August 1, 1985 to completion of operations on November 30, 1986, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1986, the statement of advance payments to producers under the Prairie Grain Advance Payments Act as at July 31, 1986, and the statement of special account transactions for the year ended July 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Board as at July 31, 1986 and the results of operations for the periods shown, in accordance with generally accepted accounting principles consistently applied.

Deloitte, Haskins & Sells
Chartered Accountants

Winnipeg, Canada
March 13, 1987

BALANCE SHEET AS AT JULY 31, 1986
(with prior year figures for comparison)

EXHIBIT I

ASSETS	1986	1985
	$	$
Stocks of grain		
Wheat	983,030,499	1,162,910,405
Durum	69,281,906	80,190,344
Oats	10,643,612	3,556,023
Designated Oats	216,145	109,682
Barley	159,086,431	98,237,385
Designated Barley	13,809,239	10,117,349
	1,236,067,832	1,355,121,188
Bills of exchange plus accrued interest (Note 2)	3,552,049,345	3,691,148,705
Accounts receivable (Note 3)		
Amounts due on completed sales	102,178,934	20,182,068
Sundry	43,108,832	49,498,523
Prairie Grain Advance Payments Act	16,101,510	5,438,408
Due from the Government of Canada re deficit on Pool Account Operations		
1985-86 Pool Account		
Wheat	22,994,777	
Oats	6,919,810	
Barley	171,370,689	
The Canadian Wheat Board Building, Winnipeg, at cost less depreciation	1,941,914	2,052,051
Covered hopper cars, at cost less depreciation (Note 4)	69,904,057	73,137,536
Office furniture, equipment and automobiles, at cost less depreciation	1,084,679	1,048,458
Deferred and prepaid expenses	10,682,075	12,430,376
	5,234,404,454	5,210,057,313

LIABILITIES	1986	1985
	$	$
Liability to Banks (Note 5)	3,884,278,500	3,908,353,974
Debentures payable (Note 6)	69,015,000	67,480,000
Liability to agents for grain purchased from producers (Note 7)	962,178,232	570,996,143
Liability to agents for deferred cash tickets (Note 8)	144,884,269	146,494,799
Accrued expenses and accounts payable (Note 9)	114,614,257	118,394,334
Outstanding adjustment and final payment cheques to producers		
Wheat	355,645	595,517
Durum	55,415	37,847
Oats	2,186	5,639
Designated Oats	391	1,426
Barley	73,752	26,462
Designated Barley	15,955	21,831
Special Account—Net balance of undistributed payment accounts (Note 10)	4,174,428	5,171,556
Provision for final payment expenses (Note 11)	7,439,828	7,197,503
Surpluses resulting from operations		
Pool Account		
Wheat		298,637,686
Durum	25,466,720	41,422,294
Oats		675,422
Designated Oats	635,944	813,196
Barley		19,066,956
Designated Barley	21,213,932	24,664,728
	5,234,404,454	5,210,057,313

W. E. JARVIS
Chief Commissioner

R. L. KRISTJANSON
Assistant Chief Commissioner

F. M. HETLAND
Commissioner

W. H. SMITH
Commissioner

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—WHEAT
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON NOVEMBER 30, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT II

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Wheat acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	18,931,918	2,762,203,255	16,192,572	2,722,955,091
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	153,256	22,701,518	93,765	15,823,780
Purchased from prior year Pool Account—Wheat	2,643,047	485,321,721	482,460	84,511,290
	21,728,221	3,270,226,494	16,768,797	2,823,290,161
Wheat sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	1,356,661		1,171,699	
Export	12,522,048		9,316,116	
Weight losses in transit and in drying	96,067		5,672	
	13,974,776	2,436,669,118	10,493,487	2,119,100,423
Wheat stocks—Being Wheat stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic	470,329		258,172	
Export	5,421,659		3,374,091	
Sale to the subsequent Pool Account—Wheat	1,861,457		2,643,047	
	7,753,445	983,030,499	6,275,310	1,162,910,405
	21,728,221	3,419,699,617	16,768,797	3,282,010,828
Surplus on Wheat transactions		149,473,123		458,720,667
Operating costs				
Carrying charges				
Carrying charges on Wheat stored in country elevators		80,147,712		88,292,322
Storage on Wheat stored in terminal elevators		27,039,928		28,079,232
		107,187,640		116,371,554
Interest, bank charges and net interest on other Board accounts		(2,674,500)		12,300,778
Demurrage		6,530,228		(2,416,042)
Additional freight—Wheat shipped from country stations to terminal position		8,087,425		5,606,478
—Freight rate changes		(126,518)		(2,608,292)
Handling and stop-off on Wheat warehoused at interior terminals		508,282		1,055,877
Drying charges		23,113,388		767,681
Interest and depreciation on Wheat Board hopper cars		10,681,214		10,170,355
Wheat Board administrative and general expenses		19,160,741		18,834,592
		172,467,900		160,082,981
(Deficit) Surplus on operations of the Board on the Pool Account—Wheat, for the period from August 1, 1985, to November 30, 1986 (1984-85 September 30, 1985)		(22,994,777)		298,637,686

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—AMBER DURUM WHEAT
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT III

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Durum acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	1,685,977	256,984,980	1,786,421	319,040,593
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	7,299	990,521	8,270	1,434,938
Purchased from prior year Pool Account—Durum	119,646	22,440,181		
	1,812,922	280,415,682	1,794,691	320,475,531
Durum sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	131,955		98,269	
Export	1,158,296		1,276,828	
Weight losses in transit and in drying	20,075		3,247	
	1,310,326	250,864,551	1,378,344	297,296,259
Durum stocks—Being Durum stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic	26,635		25,348	
Export	286,396		271,353	
Sale to the subsequent Pool Account—Durum	189,565		119,646	
	502,596	69,281,906	416,347	80,190,345
	1,812,922	320,146,457	1,794,691	377,486,604
Surplus on Amber Durum Wheat transactions		39,730,775		57,011,073
Operating costs				
Carrying charges				
Carrying charges on Durum stored in country elevators		6,528,593		7,863,782
Storage on Durum stored in terminal elevators		2,763,732		4,096,695
		9,292,325		11,960,477
Interest and bank charges		(1,439,525)		2,045,742
Demurrage		888,837		(1,748,659)
Additional freight—Durum shipped from country stations to terminal position		201,681		239,158
—Freight rate changes		(1,024)		(115,901)
Handling and stop-off on Durum warehoused at interior terminals		916,763		
Drying charges		1,819,147		8,037
Interest and depreciation on Wheat Board hopper cars		951,213		1,122,027
Wheat Board administrative and general expenses		1,634,638		2,077,897
		14,264,055		15,588,778
Surplus on operations of the Board on the Pool Account—Durum, for the period from August 1, 1985, to October 31, 1986 (1984-85 September 30, 1985)		25,466,720		41,422,295

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—OATS
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON NOVEMBER 30, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT IV

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	198,411	19,614,453	54,639	5,416,401
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	234	23,774		
Purchased from prior year Pool Account—Oats	4,310	440,331	16,369	1,785,902
	202,955	20,078,558	71,008	7,202,303
Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	59,640	5,044,472	38,487	4,921,612
Weight losses in transit and in drying				
Oats stocks—Being Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for period subsequent to July 31	114,325	8,443,804	28,211	3,115,692
Sale to subsequent Pool Account—Oats	28,990	2,199,808	4,310	440,331
	202,955	15,688,084	71,008	8,477,635
(Deficit) Surplus on Oats transactions		(4,390,474)		1,275,332
Operating costs				
Carrying charges				
Carrying charges on Oats stored in country elevators		1,056,922		285,692
Storage on Oats stored in terminal elevators		538,960		194,177
		1,595,882		479,869
Interest and bank charges		236,658		3,410
Demurrage		37,344		
Additional freight—Oats shipped from country stations to terminal position		147,068		98,106
—Freight rate changes		17,206		(84,660)
Drying charges		171,454		
Interest and depreciation on Wheat Board hopper cars		111,942		34,318
Wheat Board administrative and general expenses		211,782		68,867
		2,529,336		599,910
(Deficit) Surplus on operations of the Board on the Pool Account—Oats, for the period from August 1, 1985, to November 30, 1986 (1984-85 November 15, 1985)		(6,919,810)		675,422

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—DESIGNATED OATS
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT V

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Designated Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	36,714	4,644,373	44,219	6,061,679
Designated Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	34,968	5,052,964	43,504	6,749,003
Designated Oats stocks—Being Designated Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	1,746	216,145	715	109,682
	36,714	5,269,109	44,219	6,858,685
Surplus on Designated Oats transactions		624,736		797,006
Operating costs				
Interest		(67,518)		(95,397)
Interest and depreciation on Canadian Wheat Board hopper cars		20,714		27,773
Wheat Board administrative and general expenses		35,596		51,434
		(11,208)		(16,190)
Surplus on operations of the Board on the Pool Account—Designated Oats, for the period from August 1, 1985, to October 31, 1986 (1984-85 September 30, 1985)		635,944		813,196

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—BARLEY
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT VI

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	4,947,005	539,124,215	3,068,472	382,262,408
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	18,862	2,411,708	17,053	2,105,090
Purchased from prior year Pool Account—Barley	480,853	53,604,187		
	5,446,720	595,140,110	3,085,525	384,367,498
Barley sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill	3,156,990	303,417,269	2,235,067	318,598,608
Weight losses in transit and in drying	21,463		2,545	
Barley stocks—Being Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31	2,268,267	159,086,431	367,060	44,633,198
Sales to subsequent Pool Account—Barley			480,853	53,604,187
	5,446,720	462,503,700	3,085,525	416,835,993
(Deficit) Surplus on Barley transactions		(132,636,410)		32,468,495
Operating costs				
Carrying charges				
Carrying charges on Barley stored in country elevators		10,622,501		4,724,253
Storage on Barley stored in terminal elevators		3,957,268		3,356,581
		14,579,769		8,080,834
Interest and bank charges		5,593,975		(1,306,516)
Demurrage		975,328		(449,348)
Additional freight—Barley shipped from country stations to terminal position		2,165,184		1,897,338
—Freight rate changes		19,309		(893,639)
Handling and stop-off on Barley warehoused at interior terminals		1,703,300		(52,098)
Drying charges		6,109,994		628,571
Interest and depreciation on Wheat Board hopper cars		2,791,055		1,927,267
Wheat Board administrative and general expenses		4,796,365		3,569,130
		38,734,279		13,401,539
(Deficit) Surplus on operations of the Board on the Pool Account—Barley, for the period from August 1, 1985, to October 31, 1986 (1984-85 September 30, 1985)		(171,370,689)		19,066,956

STATEMENT OF OPERATIONS

1985-86 POOL ACCOUNT—DESIGNATED BARLEY
FOR THE PERIOD AUGUST 1, 1985, TO COMPLETION OF OPERATIONS ON OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

EXHIBIT VII

	1985-86		1984-85	
	Tonnes	Amount	Tonnes	Amount
		$		$
Designated Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	645,255	101,758,993	712,195	111,703,201
Designated Barley sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	574,947	108,116,420	661,381	124,998,887
Designated Barley stocks—Being Designated Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	70,308	13,809,239	50,814	10,117,349
	645,255	121,925,659	712,195	135,116,236
Surplus on Designated Barley transactions		20,166,666		23,413,035
Operating costs				
Interest		(2,036,919)		(2,527,411)
Interest and depreciation on Canadian Wheat Board hopper cars		364,047		447,320
Wheat Board administrative and general expenses		625,606		828,398
		(1,047,266)		(1,251,693)
Surplus on operations of the Board on the Pool Account—Designated Barley, for the period from August 1, 1985, to October 31, 1986 (1984-85 September 30, 1985)		21,213,932		24,664,728

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS FOR THE YEAR ENDED JULY 31, 1986
(with prior year figures for comparison)

EXHIBIT VIII

	1985-86	1984-85
	$	$
Administrative and General Expenses		
Salaries—Board members, officers and staff	15,339,013	15,131,273
Unemployment insurance, pension, group insurance, medical and other employee benefits	2,022,676	1,964,496
Manitoba Health and Education Tax	225,074	235,956
Advisory Committee—Travelling expenses and per diem allowances	77,769	79,197
Rental and lighting of offices including maintenance of The Canadian Wheat Board Building	1,590,643	1,424,092
Telephones—Exchange service and long distance calls	347,095	354,578
Telegrams, cables and telex expense	145,468	141,293
Postage	636,982	583,765
Printing, stationery and supplies	595,479	642,392
Annual report, mini report and "Grain Matters", etc	139,041	156,284
District meetings	13,564	19,452
Office expense	566,028	505,709
Travelling and transfer of staff	893,265	847,801
Travelling expenses—Inspectors	162,716	184,653
Legal fees and court costs	47,586	31,629
Audit fees	91,000	91,000
Computing equipment—Rental and sundries	3,481,523	2,383,997
Repair and upkeep of office machines and equipment	47,889	49,545
Grain market publications and services	88,272	80,635
The Canadian Wheat Board share of operating expenses of Canadian International Grains Institute	997,623	882,131
Bonds and insurance	40,408	29,993
Winnipeg Commodity Exchange dues	10,370	12,820
Depreciation on building, furniture, equipment and automobiles	339,715	274,440
	27,899,199	26,107,131

	1985-86		1984-85
	$		$
Allocations to Operations			
1. Marketing of Producers' Grain			
1985-86 Pool Account—Wheat	10,430,547		
1985-86 Pool Account—Durum	925,901		
1985-86 Pool Account—Oats	108,963		
1985-86 Pool Account—Designated Oats	20,162		
1985-86 Pool Account—Barley	2,716,785		
1985-86 Pool Account—Designated Barley	354,360		
1984-85 Pool Account—Wheat	8,888,637		
1984-85 Pool Account—Durum	980,625		
1984-85 Pool Account—Oats	35,307		
1984-85 Pool Account—Designated Oats	24,273		
1984-85 Pool Account—Barley	1,684,385		
1984-85 Pool Account—Designated Barley	390,947		
	26,560,892		24,658,035
2. Distributing Final Payments to Producers			
(a) Wheat and Durum			
1984-85 Pool Account—Wheat	163,784		
1984-85 Pool Account—Durum	27,298		
1983-84 Pool Account—Wheat	25,397		
1983-84 Pool Account—Durum	3,749		
1982-83 Pool Account—Wheat	4,425		
1982-83 Pool Account—Durum	604		
1981-82 Pool Account—Wheat	2,435		
1981-82 Pool Account—Durum	329		
1980-81 Pool Account—Wheat	2,874		
1980-81 Pool Account—Durum	394		
1979-80 Pool Account—Wheat	2,210		
1979-80 Pool Account—Durum	302		
	233,801		308,135
(b) Coarse Grains			
1984-85 Pool Account—Oats	10,553		
1984-85 Pool Account—Designated Oats	1,799		
1984-85 Pool Account—Barley	55,965		
1984-85 Pool Account—Designated Barley	8,434		
1983-84 Pool Account—Oats	2,233		
1983-84 Pool Account—Designated Oats	384		
1983-84 Pool Account—Barley	12,170		
1983-84 Pool Account—Designated Barley	2,025		
1982-83 Pool Account—Oats	1,025		
1982-83 Pool Account—Designated Oats	183		
1982-83 Pool Account—Designated Barley	3,071		
1981-82 Pool Account—Designated Oats	664		
1981-82 Pool Account—Barley	1,437		
1981-82 Pool Account—Designated Barley	252		
1980-81 Pool Account—Oats	783		
1980-81 Pool Account—Barley	1,698		
1980-81 Pool Account—Designated Barley	297		
1979-80 Pool Account—Barley	1,304		
1979-80 Pool Account—Designated Barley	229		
	104,506		140,961
3. Allocation authorized by Order-in-Council from Special Account—Undistributed Payment Accounts in partial payment of Administrative and General Expense incurred in respect of the Prairie Grain Advance Payments Act	1,000,000		1,000,000
	27,899,199		26,107,131

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS
UNDER THE PRAIRIE GRAIN ADVANCE PAYMENTS ACT
AS AT JULY 31, 1986

EXHIBIT IX

	Cash Advances to Producers	Advances Repaid by Producers	Balance to be Refunded by Producers
	$	$	$
1957-58 Crop Year	35,203,467	35,200,848	2,619
1958-59 Crop Year	34,369,653	34,366,768	2,885
1959-60 Crop Year	38,492,505	38,490,056	2,449
1960-61 Crop Year	63,912,550	63,904,499	8,051
1961-62 Crop Year	16,656,713	16,651,472	5,241
1962-63 Crop Year	29,251,526	29,245,974	5,552
1963-64 Crop Year	62,136,418	62,129,676	6,742
1964-65 Crop Year	32,961,844	32,955,723	6,121
1965-66 Crop Year	40,600,386	40,596,508	3,878
1966-67 Crop Year	36,668,270	36,664,915	3,355
1967-68 Crop Year	47,280,533	47,277,574	2,959
1968-69 Crop Year	151,852,319	151,772,155	80,164
1969-70 Crop Year	272,777,516	272,476,405	301,111
1970-71 Crop Year	91,105,890	91,076,240	29,650
1971-72 Crop Year	68,142,360	68,108,551	33,809
1972-73 Crop Year	20,754,104	20,743,229	10,875
1973-74 Crop Year	35,259,387	35,219,656	39,731
1974-75 Crop Year	46,635,399	46,604,087	31,312
1975-76 Crop Year	20,236,528	20,208,199	28,329
1976-77 Crop Year	130,592,220	130,475,756	116,464
1977-78 Crop Year	119,090,916	118,918,678	172,238
1978-79 Crop Year	151,316,450	151,195,641	120,809
1979-80 Crop Year	99,146,581	99,073,930	72,651
1980-81 Crop Year	61,640,150	61,600,876	39,274
1981-82 Crop Year	333,688,190	333,194,187	494,003
1982-83 Crop Year	309,022,755	308,039,815	982,940
1983-84 Crop Year	286,736,519	285,598,650	1,137,869
1984-85 Crop Year	201,289,320	199,198,047	2,091,273
1985-86 Crop Year	340,670,596	317,090,565	23,580,031
	3,177,491,065	3,148,078,680	

Balance to be refunded by Producers as at July 31, 1986		29,412,385
Add: bank interest to July 31, 1986, payable by the Government of Canada	117,015,857	
Less: amount paid to July 31, 1986	116,798,341	217,516
		29,629,901
Deduct: balance of funds received to cover advance payments in default		
Government of Canada	1,114,724	
Line Elevator Companies	70,537	
Interest received on default payments	12,343,130	13,528,391
Owing to the Canadian Wheat Board as at July 31, 1986		16,101,510

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
FOR THE YEAR ENDED JULY 31, 1986

EXHIBIT X

	$	$
Balance of Special Account as at July 31, 1985		5,171,556
Transfer to Special Account authorized by Order-in-Council P.C. 1986-1872 from the following		
1978 Wheat Payment Account	701,856	
1978 Durum Payment Account	92,360	
1978 Oats Payment Account	(17,069)	
1978 Barley Payment Account	218,721	
1978 Designated Barley Payment Account	95,065	1,090,933
		6,262,489

Expenditures

Authorized by Order-in-Council No.	Description of Purpose	Unexpended as at July 31, 1985	Authorized Crop Year 1985-86	Unexpended as at July 31, 1986	Expended Crop Year 1985-86	
		$	$	$	$	
P.C. 1986-1874	Market Development	359,167	650,000	461,972	547,195	
P.C. 1986-1873	General Promotion and Overseas Advertising	36,009	150,000	133,086	52,923	
P.C. 1986-1058	Prairie Grain Advance Payment Act—Administration		3,000,000	2,000,000	1,000,000	
P.C. 1985-2262	Remote Sensing Crop Monitoring Project	33,000		33,000		
P.C. 1985-1946	General Promotion and Overseas Advertising—50th Anniversary	140,000			140,000	
P.C. 1985-1945	Customer Mission Program—50th Anniversary	292,880		220,678	72,202	
P.C. 1984-2690	Customer Mission Program	275,635		266,137	9,498	
P.C. 1983-2007	Canadian International Grains Institute—Capital Expenditures	69,539		45,048	24,491	
P.C. 1983-2003	Joint Policy Coordinating Committee of Canada and United States Wheat Producers	88,133		88,133		
P.C. 1981-3436	Scholarship and Assistantship Program	30,142	249,858	44,118	235,882	
		1,324,505	4,049,858	3,292,172		2,082,191
						4,180,298

Less: payments to producers against old payment accounts	5,870
Balance of Special Account as at July 31, 1986	4,174,428

As at July 31, 1986, there were unexpended authorizations totalling $3,292,172 leaving an unexpended balance of $882,256 in the Account.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS

The Financial Statements of the Canadian Wheat Board including notes thereto for the crop year consist of the Balance Sheet (Exhibit I), which sets forth the financial position of the Board as at July 31, 1986, together with other statements (Exhibits II to X) showing the results of Board operations for the year.

The practice of the Board is to include in its accounts at July 31, the final operating results of pool accounts when marketing operations have been completed before the issuance of the annual report. Operations on the 1985-86 Pool Accounts for Amber Durum Wheat, Designated Oats, Barley and Designated Barley were completed on October 31, 1986, and for Wheat and Oats on November 30, 1986. Details of the final operating results of these pool accounts with commentary thereon are presented in this section of the report.

Although the basic measurement for grain has been the "tonne" since February 1, 1978, for your information a tonne equals 36.74371 bushels of Wheat, 64.84183 bushels of Oats or 45.92963 bushels of Barley.

Pool Account — Wheat

Initial Payments

During the crop year the Board was authorized to purchase wheat from producers at a fixed initial price of $160.00 per tonne for No. 1 Canada Western Red Spring.

Supplies of Wheat

Supplies of wheat in the 1985-86 Pool were 21,728,221 tonnes, comprised of 18,931,918 tonnes delivered by producers, 153,256 tonnes acquired from other than producers and 2,643,047 tonnes purchased from the previous pool.

Grade Pattern

Deliveries of grain to the 1985-86 Pool Account were of substantially lower quality compared with receipts in the previous pool. Deliveries of Nos. 1 and 2 Canada Western Red Spring totalled 9.659 million tonnes or 51.02 per cent of total receipts, while No. 3 Canada Western Red Spring receipts of 5.524 million tonnes amounted to 29.18 per cent of total receipts. Deliveries of Utility grades including Canada Feed amounted to 2.026 million tonnes or 10.70 per cent of total producer deliveries. Approximately 19.32 per cent of producer deliveries graded tough while 3.92 per cent graded damp.

Final Statement of Operations — Wheat — Table A

Marketing operations on the Pool Account for Wheat resulted in a deficit of $22,994,777 which is recoverable from the Government of Canada with funds provided by Parliament. The total payment realized by producers is therefore equal to the initial payments as shown in Table B.

STATEMENT OF OPERATIONS ON THE 1985-86 POOL ACCOUNT — WHEAT
FOR THE PERIOD AUGUST 1, 1985, TO NOVEMBER 30, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE A

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	18,931,918 tonnes		16,192,572 tonnes	
	$	$	$	$
Sales value	2,911,676,378	153.797	3,181,675,758	196.490
Initial payments to producers	2,762,203,255	145.902	2,722,955,091	168.161
Gross Surplus	149,473,123	7.895	458,720,667	28.329
Deduct Operating Costs				
Carrying charges				
Country elevators	80,147,712	4.233	88,292,322	5.453
Terminal storage	27,039,928	1.428	28,079,232	1.734
Total Carrying Charges	107,187,640	5.661	116,371,554	7.187
Bank interest and net interest on other Board accounts	(2,674,500)	(.141)	12,300,778	.760
Demurrage	6,530,228	.345	(2,416,042)	(.149)
Additional freight—To terminals	8,087,425	.427	5,606,478	.346
—Freight rate changes	(126,518)	(.006)	(2,608,292)	(.161)
Handling and stop-off	508,282	.027	1,055,877	.065
Drying	23,113,388	1.221	767,681	.047
Interest and depreciation on Wheat Board hopper cars	10,681,214	.564	10,170,355	.628
Wheat Board administrative expenses	19,160,741	1.012	18,834,592	1.163
Total Operating Costs	172,467,900	9.110	160,082,981	9.886
Surplus (Deficit) on Operations	(22,994,777)	(1.215)	298,637,686	18.443
Add: interest earned after September 30			7,590,715	.469
Deduct: cost of issuing final payment			144,422	.009
Surplus for Distribution to Producers			306,083,979	18.903

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

PAYMENT RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF WHEAT BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE B

Grade	Initial payments (dollars per tonne)
Red Spring Wheat Grades	
No. 1 Canada Western Red Spring	160.00
No. 2 Canada Western Red Spring	154.21
No. 3 Canada Western Red Spring	146.21
No. 1 Canada Utility	142.21
No. 2 Canada Utility	128.21
Canada Feed	121.00
No. 1 Canada Western Red Winter	145.21
No. 2 Canada Western Red Winter	143.21
No. 1 Canada Western Soft White Spring	132.00
No. 2 Canada Western Soft White Spring	129.00

Operating Costs

Operating costs incurred applicable to the pool were $172,467,900 or $9.110 per tonne. Details of the principal costs and comment thereon follow:

Carrying Charges — $107,187,640

Total carrying charges incurred by the Board, including storage and interest charges on wheat in country elevators and storage on wheat in terminal elevators amounted to $107,187,640 or $5.661 per tonne.

Bank Interest and Net Interest on Other Board Accounts — ($2,674,500)

This consists mainly of bank interest and interest paid to or received from other Board accounts. Interest earned, exceeded interest paid by $2,674,500 or $.141 per tonne.

Additional Freight — To Terminals — $8,087,425 — Freight Rate Change — ($126,518)

During the crop year the Board paid $8,087,425 of additional freight arising out of the movement of grain in adverse direction.

With the abolition of the Crows Nest Pass Freight rate on December 31, 1983, freight rates are reviewed annually under the Western Grain Transportation Act. On August 1, 1986, freight rates declined by approximately $.02 per tonne and the Board collected the resulting freight saved on the country stocks held by its agents on August 1, 1986, amounting to $126,518 in the Wheat Account.

Drying Charges — $23,113,388

Drying charges for 1985-86 totalled $23,113,388, a very significant increase from the previous year, reflecting the substantial quantities of tough and damp grain delivered to the pool under review.

Interest and Depreciation on Wheat Board Hopper Cars — $10,681,214

Costs for the use of the Board's 2,000 hopper cars include depreciation and interest. Hopper car expenses attributable to the 1985-86 Wheat Account totalled $10,681,214 compared to $10,170,355 for the previous pool.

Pool Account — Amber Durum Wheat

Initial Payments

During the crop year the Board was authorized to purchase Amber Durum Wheat from producers at a fixed initial price of $160.00 per tonne for No. 1 Canada Western Amber Durum Wheat.

Supplies of Amber Durum Wheat

Supplies of Amber Durum Wheat in the 1985-86 Pool were 1,812,922 tonnes, comprised of 1,685,977 tonnes delivered by producers, 7,299 tonnes acquired from other than producers and 119,646 tonnes purchased from the previous pool.

Grade Pattern

Receipts of Nos. 1, 2 and 3 Canada Western Amber Durum totalled 1.414 million tonnes or 83.85 per cent of total producer deliveries. Approximately 19.09 per cent of producer deliveries graded tough while 2.29 per cent graded damp.

Final Statement of Operations and Surplus for Distribution to Producers — Amber Durum Wheat — Table C

Table C shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a surplus of $25,466,720. Operating expenses totalled $14,264,055 for the year or $8.460 per tonne. The principal cost was carrying charges amounting to $9,292,325 or $5.511 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to October 31, 1986 the net surplus for distribution to producers was $26,008,379. This represents an overall average of $15.426 per tonne on producer deliveries of 1,685,977 tonnes. Table D shows the total payment received by producers for the principal grades of Amber Durum Wheat delivered during the crop year. This table shows the total price realized by producers for No. 1 Canada Western Amber Durum Wheat of $181.30[illegible] per tonne, compared to $204.853 per tonne for the previous pool.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1985-86 POOL ACCOUNT—AMBER DURUM WHEAT
FOR THE PERIOD AUGUST 1, 1985, TO OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE C

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	1,685,977 tonnes		1,786,421 tonnes	
	$	$	$	$
Sales value	296,715,755	175.990	376,051,666	210.506
Initial payments to producers	256,984,980	152.425	319,040,593	178.592
Gross Surplus	39,730,775	23.565	57,011,073	31.914
Deduct Operating Costs				
Carrying charges				
Country elevators	6,528,593	3.872	7,863,782	4.402
Terminal storage	2,763,732	1.639	4,096,695	2.293
Total carrying charges	9,292,325	5.511	11,960,477	6.695
Interest	(1,439,525)	(.854)	2,045,742	1.145
Demurrage	888,837	.527	(1,748,659)	(.979)
Additional freight —To terminals	201,681	.120	239,158	.134
—Freight rate changes	(1,024)	(.001)	(115,901)	(.065)
Handling and stop-off	916,763	.544		
Drying	1,819,147	1.079	8,037	.005
Interest and depreciation on Wheat Board hopper cars	951,213	.564	1,122,027	.628
Wheat Board administrative expenses	1,634,638	.970	2,077,897	1.163
Total Operating Costs	14,264,055	8.460	15,588,778	8.726
Surplus on Operations	25,466,720	15.105	41,422,295	23.188
Add: interest earned after October 31 (1984-85 September 30)	576,261	.342	1,052,864	.589
Deduct: cost of issuing final payment	34,602	.021	26,164	.015
Surplus for Distribution to Producers	26,008,379	15.426	42,448,995	23.762

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADE OF AMBER DURUM WHEAT BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE D

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Amber Durum Wheat Grades			
No. 1 Canada Western Amber Durum	160.00	21.302	181.302
No. 2 Canada Western Amber Durum	157.21	19.092	176.302
No. 3 Canada Western Amber Durum	155.21	16.092	171.302
No. 4 Canada Western Amber Durum	139.21	.216	139.426
No. 5 Canada Western Amber Durum	121.00		121.000

Pool Account—Oats

Commencing August 1, 1981, as authorized by Order-in-Council, oats selected and accepted from producers for use in processing and milling for human consumption has been set up in a separate pool under the caption "Designated Oats". As a result, the transactions described herein consist mainly of marketing results related to feeding grades of oats.

Initial Payments

During the crop year the Board was authorized to purchase oats from producers at a fixed initial price of $100.00 per tonne for No. 1 Feed Oats.

Grade Pattern

Deliveries of Nos. 1 and 2 Canada Western Oats comprised .16 per cent of producer deliveries with feeding grades constituting the remaining 99.84 per cent of total receipts. Board receipts of tough and damp oats made up 11.20 per cent of deliveries.

Final Statement of Operations—Oats—Table E

Table E shows the operating results of the Pool Account for the 1985-86 crop year. Marketing operations resulted in a deficit of $6,919,810 which is recoverable from the Government of Canada with funds provided by Parliament. The total payment realized by producers is therefore equal to the initial payments as shown in Table F. Operating expenses totalled $2,529,336 or $12.748 per tonne. The principal cost was carrying charges amounting to $1,595,882 or $8.043 per tonne.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS
ON THE 1985-86 POOL ACCOUNT—OATS
FOR THE PERIOD AUGUST 1, 1985, TO NOVEMBER 30, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE E

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	198,411 tonnes		54,639 tonnes	
	$	$	$	$
Sales value	15,223,979	76.729	6,691,733	122.472
Initial payments to producers	19,614,453	98.857	5,416,401	99.131
Gross Surplus (Deficit)	(4,390,474)	(22.128)	1,275,332	23.341
Deduct Operating Costs				
Carrying charges				
Country elevators	1,056,922	5.327	285,692	5.229
Terminal storage	538,960	2.716	194,177	3.554
Total Carrying Charges	1,595,882	8.043	479,869	8.783
Interest	236,658	1.193	3,410	.062
Demurrage	37,344	.188		
Additional freight—To terminals	147,068	.741	98,106	1.796
—Freight rate changes	17,206	.087	(84,660)	(1.550)
Drying Charges	171,454	.864		
Interest and depreciation on Wheat Board hopper cars	111,942	.564	34,318	.628
Wheat Board administrative expenses	211,782	1.068	68,867	1.260
Total Operating Costs	2,529,336	12.748	599,910	10.979
Surplus (Deficit) on Operations	(6,919,810)	(34.876)	675,422	12.362
Add: interest earned after November 15			17,168	.314
Deduct: cost of issuing final payment			4,218	.077
Surplus for Distribution to Producers			688,372	12.599

PAYMENT RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF OATS
BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE F

Grade	Initial payments
	(dollars per tonne)
No. 1 Canada Western	106.00
No. 2 Canada Western	104.00
Extra No. 1 Feed	102.00
No. 1 Feed	100.00
No. 2 Feed	95.92

Pool Account—Designated Oats

Beginning with the crop year commencing on August 1, 1981, oats that have been delivered to the Board to be sold by the Board to purchasers who have selected and accepted the oats for use in processing and milling for human consumption, have been set up in a separate account. This account has been labeled "Designated Oats" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial Payments

During the crop year the Board was authorized to purchase Designated Oats from producers at fixed initial prices of $130.00 and $128.00 per tonne for Nos. 1 and 2 Canada Western Oats respectively and $124.00 per tonne for No. 1 Feed Oats.

Supplies and Grade Pattern

Supplies of oats in the designated pool were 36,714 tonnes representing deliveries to the Board by producers during the crop year of oats which were selected and accepted by purchasers for use in processing and milling for human consumption. Receipts of Nos. 1 and 2 Canada Western Oats totalled 21,064 tonnes or 57.37 per cent of total deliveries. Feeding grades totalled 15,650 tonnes or 42.63 per cent of total receipts.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

Final Statement of Operations and Surplus for Distribution to Producers—Designated Oats—Table G

Table G shows the operating results of this pool account for the crop year. Marketing operations resulted in a surplus of $635,944. As to operating costs, it should be noted that the Designated Oats Pool, by its very nature, does not incur the handling expenses normally related to feeding grades of oats. It is not stored by the Board, being selected by the purchaser and shipped at his request from farm to processing plant via the country elevator. As a result, the only expenses incurred attributable to such oats were costs related to hopper cars owned by the Wheat Board and administrative charges totalling $56,310 or $1.534 per tonne. These expenses were more than offset by interest earnings of $67,518 or $1.839 per tonne on the accumulating surplus in the pool. After providing for the cost of issuing the final payment and adding estimated interest earnings subsequent to October 31, 1986, the net surplus for distribution to producers was $649,496 or $17.691 per tonne on producer deliveries of 36,714 tonnes. Table H shows the total payment received by producers for the principal grades of Designated Oats delivered during the crop year.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1985-86 POOL ACCOUNT—DESIGNATED OATS
FOR THE PERIOD AUGUST 1, 1985, TO OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE G

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	36,714 tonnes		44,219 tonnes	
	$	$	$	$
Sales value	5,269,109	143.518	6,858,685	155.108
Initial payments to producers	4,644,373	126.502	6,061,679	137.084
Gross Surplus	624,736	17.016	797,006	18.024
Deduct Operating Costs				
Interest and bank charges	(67,518)	(1.839)	(95,397)	(2.157)
Interest and depreciation on Wheat Board hopper cars	20,714	.564	27,773	.628
Wheat Board administrative expenses	35,596	.970	51,434	1.163
Total Operating Costs	(11,208)	(.305)	(16,190)	(.366)
Surplus on Operations	635,944	17.321	813,196	18.390
Add: interest earned after October 31 (1984-85 September 30)	14,390	.392	20,670	.468
Deduct: cost of issuing final payment	838	.022	664	.015
Surplus for Distribution to Producers	649,496	17.691	833,202	18.843

TOTAL PAYMENTS RECEIVED BY PRODUCERS
FOR PRINCIPAL GRADES OF DESIGNATED OATS
BASIS IN STORE THUNDER BAY OR
VANCOUVER

TABLE H

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Oats Grades			
No. 1 Canada Western	130.00	20.249	150.249
No. 2 Canada Western	128.00	20.249	148.249
Extra No. 1 Feed	126.00	15.749	141.749
No. 1 Feed	124.00	13.749	137.749

Pool Account—Barley

Since August 1, 1975, as authorized by Order-in-Council, barley selected and accepted from producers for the use of malting, pot or pearling, has been set up in a separate pool under the caption "Designated Barley". As a result, the transactions remaining in the Barley Pool Account described here consist mainly of marketing results related to feeding grades of barley.

Initial Payments

At the beginning of the crop year the Board was authorized to purchase barley from producers at a fixed initial price of $110.00 per tonne for No. 1 Feed Barley.

Supplies and Grade Pattern

Supplies in the regular Feed Barley pool were 5,446,720 tonnes comprised of 4,947,005 tonnes delivered by producers, 18,862 tonnes acquired from other than producers and 480,853 tonnes purchased from the previous pool. Deliveries of Nos. 1 and 2 Feed Barley comprised 93.23 per cent of the producer deliveries in the pool. Board receipts of tough and damp barley made up 4.40 per cent of deliveries.

Final Statement of Operations—Barley—Table I

Table I shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a deficit of $171,370,689 which is recoverable from the Government of Canada with funds provided by Parliament. The total payment realized by producers is therefore equal to the initial payments as shown in Table J. Operating expenses totalled $38,734,279 for the year or $7.830 per tonne. The principal cost was carrying charges amounting to $14,579,769 or $2.947 per tonne.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS ON THE 1985-86 POOL ACCOUNT—BARLEY FOR THE PERIOD AUGUST 1, 1985, TO OCTOBER 31, 1986
(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE I

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	4,947,005 tonnes		3,068,472 tonnes	
	$	$	$	$
Sales value	406,487,805	82.169	414,730,903	135.159
Initial payments to producers	539,124,215	108.980	382,262,408	124.578
Gross Surplus (Deficit)	(132,636,410)	(26.811)	32,468,495	10.581
Deduct Operating Costs				
Carrying charges				
Country elevators	10,622,501	2.147	4,724,253	1.540
Terminal storage	3,957,268	.800	3,356,581	1.094
Total Carrying Charges	14,579,769	2.947	8,080,834	2.634
Interest	5,593,975	1.131	(1,306,516)	(.426)
Demurrage	975,328	.197	(449,348)	(.147)
Additional freight—To terminals	2,165,184	.438	1,897,338	.618
—Freight rate changes	19,309	.004	(893,639)	(.291)
Handling and stop-off	1,703,300	.344	(52,098)	(.017)
Drying	6,109,994	1.235	628,571	.205
Interest and depreciation on Wheat Board hopper cars	2,791,055	.564	1,927,267	.628
Wheat Board administrative expenses	4,796,365	.970	3,569,130	1.163
Total Operating Costs	38,734,279	7.830	13,401,539	4.367
Surplus (Deficit) on Operations	(171,370,689)	(34.641)	19,066,956	6.214
Add: interest earned after September 30			484,640	.158
Deduct: cost of issuing final payment			53,892	.018
Surplus for Distribution to Producers			19,497,704	6.354

PAYMENT RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF BARLEY BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE J

Grade	Initial payments (dollars per tonne)
Barley Grades	
No. 1 Canada Western Six-Row	112.93
No. 2 Canada Western Six-Row	111.93
No. 2 Canada Western Two-Row	111.93
No. 1 Feed	110.00
No. 2 Feed	107.43

Pool Account — Designated Barley

As stated previously, since August 1, 1975, barley that has been delivered to the Board to be sold by the Board to purchasers who have selected and accepted the barley for the use of malting, pot or pearling, has been set up in a separate pool account. This account has been labelled "Designated Barley" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial Payments

At the beginning of the crop year the Board was authorized to purchase Designated Barley from producers at a fixed initial price of $155.00 per tonne for No. 2 Canada Western Six-Row and $165.00 per tonne for No. 2 Canada Western Two-Row.

Supplies and Grade Pattern

Supplies of barley in the designated pool were 645,255 tonnes representing deliveries to the Board by producers during the crop year of barley which has been selected and accepted by purchasers for the use of malting, pot or pearling. Of these receipts 342,421 tonnes or 53.07 per cent were row grades and 302,834 tonnes or 46.93 per cent were feeding grades. Receipts of tough and damp grades totalled 46,921 tonnes or 7.27 per cent of total.

Final Statement of Operations and Surplus for Distribution to Producers—Designated Barley—Table K

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

Table K shows the operating results of this pool account for the crop year. Marketing operations resulted in a surplus of $21,213,932. As to operating costs, it should be noted that the Designated Barley Pool by its very nature does not incur the handling expenses normally related to feeding grades of barley or other grains. It is not stored by the Board, being selected by the processor (buyer) from a producer's sample and is shipped on buyer's call directly from farm to processing plant via the country elevator. As a result the only expenses incurred attributable to such barley were costs related to hopper cars owned by the Wheat Board and administrative charges totalling $989,653 or $1.534 per tonne. These expenses were more than offset by interest earnings of $2,036,919 or $3.157 per tonne on the accumulating surplus in the pool. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to Ocotber 31, 1986, the net surplus for distribution to producers was $21,683,836 or $33.605 per tonne on producer deliveries of 645,255 tonnes. This is compared to $25,284,020 or $35.501 per tonne for the previous year.

Table L shows the total payment received by producers for the principal grades of Designated Barley. The final return to producers for deliveries of No. 2 Canada Western Six-Row and No. 2 Canada Western Two-Row was $183.395 and $203.395 respectively, compared to $188.937 and $199.401 for these two grades respectively in the previous pool.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1985-86 POOL ACCOUNT—DESIGNATED BARLEY FOR THE PERIOD AUGUST 1, 1985, TO OCTOBER 31, 1986

(with prior year figures for the 1984-85 Pool Account for comparison)

TABLE K

	1985-86 Pool Account		1984-85 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	645,255 tonnes		712,195 tonnes	
	$	$	$	$
Sales value	121,925,659	188.957	135,116,236	189.718
Initial payments to producers	101,758,993	157.703	111,703,201	156.844
Gross Surplus	20,166,666	31.254	23,413,035	32.874
Deduct Operating Costs				
Interest	(2,036,919)	(3.157)	(2,527,411)	(3.549)
Interest and depreciation on Wheat Board hopper cars	364,047	.564	447,320	.628
Wheat Board administrative expenses	625,606	.970	828,398	1.163
Total Operating Costs	(1,047,266)	(1.623)	(1,251,693)	(1.758)
Surplus on Operations	21,213,932	32.877	24,664,728	34.632
Add: interest earned after October 31 (1984-85 September 30)	480,029	.744	626,923	.880
Deduct: cost of issuing final payment	10,125	.016	7,631	.011
Surplus for Distribution to Producers	21,683,836	33.605	25,284,020	35.501

TOTAL PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF DESIGNATED BARLEY BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE L

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Designated Barley Grades			
No. 1 Canada Western Six-Row	156.27	28.125	184.395
No. 2 Canada Western Six-Row	155.00	28.395	183.395
No. 1 Canada Western Two-Row	166.27	38.125	204.395
No. 2 Canada Western Two-Row	165.00	38.395	203.395
No. 1 Feed Six-Row	151.77	29.125	180.895
No. 1 Feed Two-Row	161.77	39.125	200.895
No. 2 Feed Six-Row	149.77	27.725	177.495
No. 2 Feed Two-Row	159.77	37.725	197.495

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

NOTES TO FINANCIAL STATEMENTS

The following are an integral part of the financial statements.

1. Accounting policies

(a) Operating results and valuation of stocks of grain

The annual accounts at July 31 include the final operating results of all pool accounts for the crop year ended July 31 when marketing operations have been completed before the issuance of the annual report for that year. In determining the financial results for such pools the accounts of the Board at July 31 include:

(i) the stocks of such grains on hand at that date at the values which were ultimately received from the sale thereof basis in store Thunder Bay, Vancouver or Churchill; and

(ii) provision for all expenses incurred or to be incurred before the sales proceeds are realized in cash or in bills of exchange, including a charge for the portion of administrative and general expenses to be incurred subsequent to July 31 but relating to the marketing and accounting for the grains in the various pools before they are closed.

For pool accounts for which marketing operations have not been completed before the issuance of the annual report, the unsold stocks at July 31 are valued at cost, which is the initial price paid to producers, and no provision is made for carrying costs, interest, and administrative expenses beyond that date. Any debit or credit balance in these accounts is carried on the balance sheet.

(b) Foreign currency translations

Bills of exchange receivable in United States funds which are covered by forward exchange contracts are translated at the contract rates. In all other cases, bills of exchange receivable and bank loans payable in United States funds are translated at the rate of exchange in effect as at the balance sheet date, as is also the liability for debentures repayable in United States funds.

Foreign exchange adjustments arising from conversion of bills of exchange and bank loans are included in operating results. Adjustments arising from conversion of debenture debt are amortized over the term of the debentures.

(c) Depreciation

The rates of depreciation being applied are intended to fully depreciate assets over their expected lives and are as follows:

Hopper cars	30 years
Office building	40 years
Office furniture and equipment	10 years
Automotive equipment (to ⅓ residual value)	2 years

(d) Administration and general expenses

Administration and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool account operations to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

2. Bills of exchange plus accrued interest

Of the total bills of exchange receivable, $1,348,265,483 (1985—$1,499,477,966) represents the Canadian equivalent of $976,791,627 (1985—$1,111,053,626) repayable in United States funds.

The balances receivable arise from sales of grain to Brazil, Egypt, German Democratic Republic, Haiti, Iraq, Israel, Jamaica, Mexico, Peru, Poland and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Brazil, Haiti, Jamaica, Peru, Poland and Zambia where the Board, together with the Canadian Government, have agreed to reschedule certain receivables beyond their original maturity dates. Terms of such reschedulings call for payment of interest and the rescheduled debt within ten years. As at July 31, total reschedulings amounted to $459,164,319 including $35,913,045 which is the Canadian equivalent of $26,032,957 receivable in United States currency.

As at July 31, 1986, amounts due and unpaid from Poland total $1,927,274,624 which includes the Canadian equivalent of $761,301,738 receivable in U.S. funds. Subsequent to the year end, the Board together with the Government of Canada concluded a bilateral rescheduling agreement with the Government of the Polish People's Republic, rescheduling all amounts matured and unpaid together with interest accrued thereon for the period January 1, 1982, to December 31, 1984, amounting to $1,453,356,541 which includes the Canadian equivalent of $539,059,681 receivable in U.S. funds. In accordance with a multilateral arrangement reached between Poland and official creditors, Poland is presently in the process of negotiating a further rescheduling for amounts matured and unpaid during calendar year 1985 amounting to $181,851,468 which includes the Canadian equivalent of $121,752,728 receivable in U.S. funds. The balance of amounts due and unpaid totalling $292,066,615 which includes the Canadian equivalent of $100,489,329 receivable in U.S. funds represents accrued interest and principal unpaid on the 1981 rescheduled debt, interest accrued and unpaid on the 1982-84 and 1985 debt. While certain repayment terms are specified in the 1982-84 bilateral Rescheduling Agreement with respect to the interest accrued in 1985 and 1986 on this debt, this interest is not included in the principal portion of the rescheduled debt.

During the crop year the Government of Canada and other creditor nations agreed to a further deferral of certain Zambian obligations that had earlier been rescheduled. The bilateral agreement to reschedule payments due and not paid as at December 31, 1985, and due and not paid for the period January 1, 1986, to December 31, 1986, has yet to be negotiated. The accounts of the Board at July 31, 1986, include $10,312,331 which may be subject to this rescheduling.

Subsequent to the year-end the Government of Canada and other creditor nations agreed with Brazil to reschedule over a six-year period certain obligations due and unpaid for the period January 1, 1985, to December 31, 1986. The accounts of the Board at July 31, 1986, include $173,699,989 which will be subject to the rescheduling.

Subsequent to the year-end the Government of Canada and other creditor nations agreed to reschedule over a nine-year period certain obligations owing by Mexico. The accounts of the Board at July 31, 1986, include $6,683,517 which is the Canadian equivalent of $4,842,076 receivable in United States funds which would be subject to such a rescheduling agreement.

Credit sales are made within limits established by the Government of Canada which guarantees the Board's borrowings incurred to finance such sales, both as to principal and interest. Because of these Guarantees the Board does not consider itself to be at risk should any of the unpaid amounts prove to be uncollectable; therefore, no provision is made in its accounts with respect to the possibility of debtors defaulting on their obligations.

THE CANADIAN WHEAT BOARD—*Concluded*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

3. Accounts receivable

Settlement on amounts due on sales completed as at July 31 were received shortly after that date. Sundry accounts receivable consists mainly of freight costs which are recovered on completed sales.

4. Covered hopper cars

The Board purchased 2,000 covered hopper cars in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 29 cars have been wrecked and dismantled leaving 1,971 still in the fleet having an original cost of $89,242,566 with accumulated depreciation of $19,338,509 to July 31, 1986. The Board is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

5. Liability to banks

Details of liability to banks are as follows:

	July 31	
	1986	1985
	$	$
Ordinary operations	367,538,849	224,554,171
Loans to finance credit sales	3,516,739,651	3,683,799,803
	3,884,278,500	3,908,353,974

Of the total liability $1,344,002,480 (1985—$1,498,429,431) represents the Canadian equivalent of $973,703,166 (1985—$1,110,276,698) repayable in United States funds.

The Board's borrowings are guaranteed by the Government of Canada.

6. Debentures payable

The debentures with a face value of U.S. $50,000,000 were issued on December 1, 1982, at a price of $99.50 per $100, and bear interest at 11¼ per cent per annum payable each December 1. No principal repayments are required until maturity on December 1, 1990. Under certain circumstances the Board may redeem the debentures in whole or in part prior to maturity. Depending upon the particular circumstances giving rise to any early redemption, a premium may be payable on the principal amount redeemed.

The debentures are secured by a charge against grain held by the Board.

7. Liability to agents for grain purchased from producers

Grain companies acting in the capacity of agents of the Board accept deliveries from producers at country elevators and pay the producers on behalf of the Board based on the Board's initial price in effect. Settlement is not made by the Board for these purchases until delivery to the Board is completed by its Agents at terminal or mill position. Liability to agents amounting to $962,151,232 (1985—$570,996,143) represents the amount payable by the Board to its agents for 6,961,181 (1985—3,600,606) tonnes of wheat, amber durum wheat, oats and barley on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Board is to be completed subsequent to year-end date.

8. Liability to agents for deferred cash tickets

Grain companies as agents of the Board deposit with the Board in trust the proceeds of deferred cash tickets issued for Board grain. These monies are returned to the grain companies to cover producer deferred cash tickets maturing predominately during the first days of the following calendar year.

9. Accrued expenses and accounts payable

This item principally comprises accrued carrying charges, storage, interest and transportation charges to July 31, 1986, together with all other unpaid sundry accounts as at the foregoing date. It also includes provisions for all charges relating to the marketing of Pool Accounts for Amber Durum Wheat, Designated Oats, Barley and Designated Barley for the period from August 1, 1986, to completion of operations on October 31, 1986, and for Wheat and Oats for the period from August 1, 1986, to completion of operations on November 30, 1986.

10. Special account — Net balance of undistributed payment accounts

In accordance with the provision of Section 30 of the Canadian Wheat Board Act the Governor in Council may authorize the Board to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council upon the recommendations of the Board may deem to be for the benefit of producers.

11. Provision for final payment expenses

This represents the balance of the Board's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools are transferred to the special account by Order-in-Council.

12. Lease commitments

The Board, as an agent of Her Majesty in Right of Canada, is the lessor of 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the Government and are not a charge to the operations of the Board. Total payments associated with leases in the year ended July 31, 1986, amounting to $16,809,962 (1985—$16,728,906) have been recovered by the Board. Lease terms are for 20 and 25 years.

SUMMARY PAGE

CANAGREX

MANDATE

To promote, facilitate and, when specifically requested, to engage in the export of agricultural and food products from Canada.

BACKGROUND

Incorporated in 1983, the corporation began operations in 1984. The government plans to dissolve the corporation and transfer its operations to other government departments and agencies. Legislation (S.C. 1987, C. 38) to authorize dissolution of Canagrex was given Royal Assent on October 8, 1987.

CORPORATION DATA

HEAD OFFICE	c/o Crown Corporations Directorate Treasury Board of Canada 8th Floor, East Tower 140 O'Connor Street Ottawa, Ontario. K1A 0R5
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	The *Canagrex Act* (S.C. 1980-81-82-83, C.152).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Glenn Flaten
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	0.2	0.3	2.3	0.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.2	0.2	1.8	0.2
Cash from Canada in the period				
— budgetary	nil	nil	5.4	0.7
— non-budgetary	nil	nil	nil	nil

CANAGREX

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have examined the balance sheet of Canagrex as at March 31, 1987 and the statements of operations and surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of Canagrex as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canagrex Act and the by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986	LIABILITIES	1987	1986
	$	$		$	$
Cash	167,323	286,915	Accounts payable and accrued liabilities		147,120
Accounts receivable	895	14,140	EQUITY OF CANADA		
			Surplus	168,218	153,935
	168,218	301,055		168,218	301,055

Approved by the Board:

GLENN FLATEN

HOWARD MALCOLM

CANAGREX—*Concluded*

STATEMENT OF OPERATIONS AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Revenue		
Interest income	12,790	148,123
Guarantee fees		3,450
	12,790	151,573
Expenses		
Directors fees and expenses	3,600	7,703
Stationery, supplies and library	128	3,519
Travel and entertainment	30	6,040
Office and equipment rentals		136,624
Lease termination		90,820
Salaries and benefits		85,596
Professional fees		11,295
Telephone, telex and postage		12,997
Miscellaneous		3,412
	3,758	358,006
Income from (cost of) operations	9,032	(206,433)
Adjustment on settlement of termination benefits	(718)	136,132
Refund of Quebec payroll taxes (Note 3)	5,969	
Gain on sale of fixed assets		27,958
	14,283	(42,343)
Surplus, beginning of year	153,935	1,846,278
Repayment of surplus to the Consolidated Revenue Fund		(1,650,000)
Surplus, end of year	168,218	153,935

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating		
Cash provided by (used in) operating activities		
Cost of operations before interest income	(3,758)	(354,556)
Decrease in accounts receivable	13,245	3,081
Decrease in accounts payable	(147,120)	(288,506)
Refund of Quebec payroll taxes	5,969	
Adjustment on settlement of termination benefits	(718)	136,132
	(132,382)	(503,849)
Investing		
Cash provided by investing activities		
Interest on bank deposits	12,790	148,123
Disposal of fixed assets		102,959
	12,790	251,082
Financing		
Cash used in financing activities		
Repayment of surplus to the Consolidated Revenue Fund		(1,650,000)
		(1,650,000)
Decrease in cash for the year	(119,592)	(1,902,767)
Cash, beginning of year	286,915	2,189,682
Cash, end of year	167,323	286,915

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987

1. The Corporation

The Corporation was established in June 1983 under the CANAGREX Act and commenced operations in January 1984. It is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

The purpose of CANAGREX was to assist Canadian producers and processors to increase their exports of food and agricultural products. The Corporation worked with the private and public sectors to promote, facilitate and engage in the export of agricultural products and services and food products and services.

It was announced by the Minister of Finance, on November 8, 1984, that the Canagrex programme was to be discontinued. Since then the Corporation has been engaged in winding-up its affairs. Bill C-42, "An Act to dissolve Canagrex and to amend certain Acts in consequence thereof" is presently before Parliament and has now undergone second reading in the House of Commons. If proclaimed, the Bill will result in the orderly liquidation of the Corporation.

Canagrex no longer has any employees. The president of the Corporation resigned in September 1985. The Board of Directors remains intact to deal with statutory requirements pending the dissolution of the Corporation, which is being administered, without charge, by officials of the Department of Agriculture.

2. Accounting policies

Interest income, which relates to bank deposits, is recorded on the accrual basis.

3. Refund of Quebec payroll taxes

In September 1986, the Quebec Ministry of Revenue determined that the Corporation was not subject to certain Quebec payroll taxes. Accordingly, amounts paid in 1984 and 1985 have been refunded and accounted for as an unusual item in the current year.

4. Comparative figures

Certain 1986 comparative amounts have been reclassified to conform with the presentation adopted in 1987.

SUMMARY PAGE

CAPE BRETON DEVELOPMENT CORPORATION

MANDATE

To operate, reorganize and rationalize coal production from the Sydney coal field. To broaden the economic base and develop new job opportunities on Cape Breton Island.

BACKGROUND

The corporation's two divisions were established in 1967 by the *Cape Breton Development Corporation Act*:

— Originally established to close down the Cape Breton coal mining industry with minimum dislocation, the Coal Division is still the major employer in the Sydney/Glace Bay area. A resurgence in coal demand locally for power generation has led to an expanded and modernized industry employing approximately 3,600 people. In addition to the Prince and Lingan mines, the corporation operates a coal preparation plant, a complete rail transportation system and a shipping pier. A new Phalen colliery will be completed in 1987, increasing the corporation's annual production capacity to over 4 million tonnes.

— The Industrial Development Division was created to develop alternative employment opportunities and broaden the base of the local economy. In conjunction with the Atlantic Canada Opportunities Agency, Enterprise Cape Breton and other federal and provincial initiatives, this Division promotes and assists the financing and development of industry on Cape Breton Island through a wide range of assistance instruments.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2500 Sydney, Nova Scotia B1P 6T7
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Robert R. de Cotret, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion and Science and Technology
YEAR AND MEANS OF INCORPORATION	1967; by the *Cape Breton Development Corporation Act*, (R.S.C. 1970, C-13).
CHIEF EXECUTIVE OFFICER	Derek Rance
CHAIRMAN	Teresa MacNeil
AUDITOR	Touche, Ross & Co.

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	581	454	397	359
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	7	3	13	11
Equity of Canada	511	401	335	306
Cash from Canada in the period				
— budgetary	164	120	108	110
— non-budgetary	4	(10)	2	11

CAPE BRETON DEVELOPMENT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF REGIONAL INDUSTRIAL EXPANSION

We have examined the balance sheet and the statement of equity of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1987, and the related income and operating statements and the statements of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The financial statements of the Industrial Development Division and of its subsidiaries have been presented on a consolidated basis. As required by the provisions of the Cape Breton Development Corporation Act, the financial statements of the Coal Division and of the Industrial Development Division are being presented separately.

In our opinion, these financial statements present fairly the financial position of the Coal Division and of the Industrial Development Division of the Cape Breton Development Corporation as at March 31, 1987, and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and its regulations, and the Cape Breton Development Corporation Act and the by-laws of the Corporation.

Touche Ross & Co.
Chartered Accountants

Sydney, Canada
May 22, 1987

COAL DIVISION

BALANCE SHEET AS AT MARCH 31

ASSETS	1987	1986
	$	$
Current		
Cash	15,738,103	10,315,194
Accounts receivable (Note 2)	16,662,237	23,873,285
Inventories, at the lower of cost and net realizable value		
Coal	17,921,379	22,818,843
Operating materials and supplies	16,999,490	12,945,717
Prepaid expenses	75,927	44,287
	67,397,136	69,997,326
Fixed (Note 3)	486,054,365	360,584,821
	553,451,501	430,582,147

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable—Trade	29,139,356	20,419,648
Accrued wages and vacation pay	13,005,904	12,602,795
Accrued charges	14,006,335	12,731,111
Employees' deductions	5,239,931	3,568,282
Advances—Government of Canada	7,022,215	2,643,419
	68,413,741	51,965,255
EQUITY		
Equity of Canada	485,037,760	378,616,892
	553,451,501	430,582,147

Commitments (Note 4)
Contingencies (Note 5)

On Behalf of the Board:

TERESA MacNEIL
Director

MENDEL CHERNIN
Director

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

STATEMENT OF EQUITY
AS AT MARCH 31

	1987	1986
	$	$
Balance at beginning of year	378,616,892	315,444,720
Add: payments by Canada in respect of mining losses—Vote 35 (Note 1(a))	17,685,203	16,935,853
payments by Canada in respect of capital expenditures—Vote 40 and 40b (Note 1(a))	135,597,000	93,662,972
	531,899,095	426,043,545
Deduct: mining losses	17,685,203	16,935,853
depreciation of fixed assets	29,176,132	30,490,800
	46,861,335	47,426,653
Balance at end of year	485,037,760	378,616,892

COAL DIVISION

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Revenue		
Coal sales	184,572,097	183,248,861
Less: external selling expense	3,838,687	4,295,726
	180,733,410	178,953,135
Outside railway revenue	3,074,447	2,775,345
Operating revenue	183,807,857	181,728,480
Operating expenses		
Wages and salaries	77,267,984	72,218,107
Holidays and vacations	8,941,733	10,363,224
Workers' Compensation	8,528,101	8,077,931
Surcharges	7,266,685	7,470,296
Materials and supplies	19,912,632	23,667,644
Repair materials	9,516,682	8,102,346
Electric power	5,303,090	5,192,866
Grants in lieu of taxes	2,777,320	2,559,939
Royalties	605,472	605,285
Hired heavy equipment	5,993,396	5,916,792
Other expenses	6,228,579	6,436,665
Purchased and capital coal	23,499,110	11,823,656
Depreciation	29,176,132	30,490,800
Decrease in coal inventory	4,897,464	15,270,374
Total operating expenses	209,914,380	208,195,925
Excess operating expenses over operating revenue	26,106,523	26,467,445
Pensions	15,278,791	14,412,457
Pre-retirement leave	3,466,571	3,650,485
Workers' Compensation (Note 1(d))	2,799,996	3,600,000
Interest and other income	(790,546)	(703,734)
	46,861,335	47,426,653
Deduct: depreciation not deductible in determining mining losses (Note 1(c))	29,176,132	30,490,800
Net mining losses for the year	17,685,203	16,935,853

COAL DIVISION

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Cash from (for) operating activities		
Net mining losses	(17,685,203)	(16,935,853)
Decrease in non-cash operating working capital*	20,092,789	13,371,407
	2,407,586	(3,564,446)
Cash from financing activities		
Payments by Canada		
In respect of mining losses	17,685,203	16,935,853
In respect of capital expenditures	135,597,000	93,662,972
Increase (decrease) in repayable working capital advances	4,378,796	(10,798,825)
	157,660,999	99,800,000
Cash from (for) investing activities		
Purchase of fixed assets	(155,001,847)	(94,159,330)
Proceeds from sale of fixed assets	356,171	496,358
Deferred development costs		612,279
	(154,645,676)	(93,050,693)
Increase in cash	5,422,909	3,184,861
Cash at beginning of year	10,315,194	7,130,333
Cash at end of year	15,738,103	10,315,194
(Increase) decrease in non-cash operating working capital*		
Accounts receivable	7,211,048	(2,060,970)
Coal inventory	4,897,464	15,270,374
Material inventory	(4,053,773)	(1,069,866)
Prepaid expenses	(31,640)	87,080
Accounts payable—Trade	8,719,708	6,860,611
Accrued wages and vacation pay	403,109	(741,154)
Accrued charges	1,275,224	(3,689,489)
Employees' deductions	1,671,649	(1,285,179)
	20,092,789	13,371,407

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987

1. Significant accounting policies

(a) Financing

The Corporation is financed by way of votes of the Parliament of Canada. These votes are for the purpose of funding mining losses and to finance capital projects.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed assets

Fixed assets are stated at cost. The Corporation has provided depreciation on its fixed assets based on their estimated useful lives. The Treasury Board of Canada has indicated that depreciation should not be provided in determining mining losses for Parliamentary appropriation. Accordingly, the depreciation provision has been eliminated in arriving at this amount.

(d) Workers' Compensation

Cape Breton Development Corporation is in a single pool with respect to the Nova Scotia Workers' plan. Prior to the fire at, and closure of, No. 26 Colliery, the expense for Workers' Compensation was allocated to the overhead of each operating unit on a formula basis. The Corporation has continued this accounting treatment with the exception of the

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

fixed portion of the expense that would have been absorbed by No. 26 Colliery. This item is shown separately on the Statement of Income as a non-operational expense.

2. Accounts receivable

	1987	1986
	$	$
Trade	16,656,770	23,928,237
Employees	105,467	95,048
	16,762,237	24,023,285
Less: allowance for doubtful accounts	100,000	150,000
	16,662,237	23,873,285

3. Fixed assets

	1987	1986
	$	$
Lingan Colliery	153,454,909	136,690,740
Prince Colliery	100,781,496	91,690,525
Donkin-Morien Colliery	80,920,142	72,437,092
Phalen Colliery	147,997,987	60,522,071
Coal Preparation Plant	84,247,324	60,464,896
Devco Railway	74,007,251	67,139,009
Carbogel	4,082,155	2,719,620
Other fixed assets	37,461,975	36,643,610
	682,953,239	528,307,563
Accumulated depreciation (Note 1(c))	196,898,874	167,722,742
	486,054,365	360,584,821

Included in fixed assets above is $80,920,142 of cumulative costs to March 31, 1987 on the Donkin-Morien Colliery development project. The Corporation has evaluated the viability of the overall project, taking into consideration the economic, commercial and strategic considerations with regards to the substantial costs involved in completion of the underground development of the colliery to realize commercial production. It has decided to maintain the completed access tunnels to ensure the future benefit of the funds expended. As these assets are not presently in use the Corporation has decided to provide for nominal depreciation commencing in the March 31, 1988 fiscal year.

4. Commitments

(a) Commitments on capital projects include the following:

Approximately $14,314,000 for underground mining equipment
Approximately $1,563,000 for other facilities

(b) In May, 1984, the Government of Canada committed to the development of the Phalen Colliery. The total development costs are anticipated to be approximately $184,400,000 with $36,400,000 anticipated for approval for the 1987-88 fiscal year.

(c) The Corporation leases the General Mining Building which houses the offices of the Coal Division. The lease is for a 20-year period, commencing June, 1984, with lease payments of approximately $1,200,000 per annum, at a current interest rate of 10.0%. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates.

5. Contingent liabilities and claims

(a) On February 13, 1981, an explosion occurred on board a vessel carrying a shipment of coal supplied by the Corporation. As at March 31, 1987, an action has been commenced by the claimant which the Corporation intends to oppose as to the entire claim, and accordingly no provision for any possible claim is included in the financial statements.

(b) The Corporation self insures against the potential loss of underground assets and for a portion of its liability insurance.

6. Long-term sales agreement

The Corporation has signed an agreement with the Nova Scotia Power Corporation which calls for the delivery of a substantial portion of the Corporation's coal production to the Power Corporation. The agreement expires in the year 2010.

7. Pensions

An actuarial valuation of the Corporation's Non-Contributory Pension Plan as at December 31, 1985 indicated an unfunded actuarial liability of $62,400,000. No provision for this liability was included in the accounts as at March 31, 1987. The minimum annual amount required for past and current service, including pension payments, will be approximately $11,100,000 in each year from 1987 to 1992, $6,200,000 in 1993 and $5,500,000 from 1994 to 1997.

The Corporation is funding current pension payments of approximately $14,800,000. Should current pension payments in any year be less than the minimum annual amount required, the balance will be funded by the Corporation.

8. Income taxes

The Corporation will be applying for refundable investment tax credits in respect of qualified expenditures incurred and qualifying assets purchased after April 19, 1983. The Corporation estimates the refund to be approximately $13,000,000. This amount has not been reflected in these financial statements and will be recorded as a reduction to the related expenditures or assets when received.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31

ASSETS	1987	1986
	$	$
Current		
Cash	1,413,820	1,476,368
Accounts and interest receivable	923,735	632,784
Receivable from Province of Nova Scotia	33,174	
Receivable from Government of Canada		3,800,000
Inventories (Note 2(d))	231,607	207,773
Prepaid expenses	36,238	19,806
	2,638,574	6,136,731
Loans and investments		
Loans	7,892,993	3,064,858
Investments	321,891	371,980
	8,214,884	3,436,838
Fixed (Notes 2(b) and 3)	16,610,323	13,716,405
Other		
Deferred charges	899	899
	27,464,680	23,290,873

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable	1,465,668	652,321
EQUITY		
Equity of Canada	25,999,012	22,638,552
	27,464,680	23,290,873

Guarantees (Note 4)
Commitments and Contingency (Note 5)

On Behalf of the Board:

MENDEL CHERNIN
Director

TERESA MacNEIL
Director

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF EQUITY
AS AT MARCH 31

	1987	1986
	$	$
Equity at beginning of year	22,638,552	19,655,455
Payments during year from Government of Canada—Vote 45 (Note 1)	10,600,000	9,500,000
	33,238,552	29,155,455
Deduct: net operating expenses	7,239,540	6,516,903
Equity at end of year	25,999,012	22,638,552

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED OPERATING STATEMENT
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Development and operating expenses		
Industrial operations and assistance	1,529,575	1,777,582
Tourist operations and grants	1,162,652	1,192,916
New business development assistance	2,497,760	1,572,405
Marine farming operations	38,175	247,031
Real estate operating costs	923,387	773,770
Community planning and projects	175,500	1,815,500
Primary production operations	481,983	436,319
Scholarships and apprentice programs	28,500	29,736
Loss (Gain) on disposal of fixed assets	198,442	(1,966)
	7,035,974	7,843,293
Administration expenses		
Salaries	736,994	927,402
Office and miscellaneous expenses	559,373	312,578
Professional fees	68,416	66,933
Travelling expenses	34,459	75,884
	1,399,242	1,382,797
Depreciation and amortization	1,354,626	1,535,613
Provision for unrecoverable loans and receivables	1,238,875	(199,805)
	2,593,501	1,335,808
Total operating expenses for the year	11,028,717	10,561,898
Revenue		
Tourist operations	1,271,082	1,134,258
Real estate rentals	1,104,025	1,304,552
Industrial operations	563,583	546,970
Interest	763,195	749,573
Marine farming operations		250,225
Primary production operations	87,292	59,417
	3,789,177	4,044,995
Net operating expenses	7,239,540	6,516,903

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Cash from financing activities		
Payments by Canada—Vote 45	10,600,000	9,500,000
Cash for operating activities		
Net operating expenses	(7,239,540)	(6,516,903)
Charges (credits) not affecting cash		
Depreciation and amortization	1,354,626	1,535,613
Loans forgiven	164,683	77,385
Loss (gain) on sale of fixed assets	198,442	(1,966)
Provision for (recovery of) doubtful accounts	1,364,696	(317,835)
	(4,157,093)	(5,223,706)
(Increase) decrease in non-cash operating working capital*	4,248,956	(2,417,797)
	91,863	(7,641,503)
Cash for investing activities		
Loan repayments	762,556	988,244
Loan drawdowns	(7,120,551)	(2,047,441)
Purchase of fixed assets	(4,868,370)	(815,638)
Proceeds from sale of fixed assets	426,865	380,720
Purchase of investments	45,089	(4,417)
	(10,754,411)	(1,498,532)
Increase (decrease) in cash	(62,548)	359,965
Cash at beginning of year	1,476,368	1,116,403
Cash at end of year	1,413,820	1,476,368
(Increase) decrease in non-cash operating working capital*		
Accounts receivable	3,475,875	(2,919,341)
Inventories	(23,834)	199,939
Prepaid expenses	(16,432)	6,096
Accounts payable	813,347	295,509
	4,248,956	(2,417,797)

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1987

1. General policy

The mission of the Industrial Development Division, as stated in the approved five year plan (1985-86 — 1989-90), is to support the establishment and maintenance of viable enterprises on Cape Breton Island, thereby improving the economic base and employment opportunities on the Island. In accomplishing these objectives, the Corporation makes loans and investments, the amounts of which may be in excess of those which would be available through normal commercial sources. The Corporation also makes grants to assist enterprises which are considered likely to make a substantial improvement to the development of Cape Breton Island.

The Industrial Development Division is financed by way of Vote of the Parliament of Canada. Parliament voted $10,600,000 for this purpose during the fiscal year ended March 31, 1987.

2. Significant accounting policies

(a) (i) Basis of consolidation

The financial statements of the Industrial Development Division include the results of the Division and all its subsidiaries as explained below:

	Corporation Interest	Company Year end
Darr (Cape Breton) Limited (Real Estate)	100%	Dec. 31
Cape Breton Marine Farming Limited (Inactive)	100%	March 31
Whale Cove Summer Village Limited (Tourist Accommodations)	62.5%	March 31
Dundee Estates Limited (Tourist Accommodations)	100%	March 31

(ii) As the financial statements of Whale Cove Summer Village Limited report a deficit equity position as at March 31, 1987, and the minority interest in losses to date have been absorbed against the total of the minority invested capital, the losses of this company are included in the consolidated net operating expenses. As a consequence, no minority interest for this subsidiary is shown in the consolidated balance sheet.

(b) Fixed assets

Fixed assets are recorded at cost. The cost and related depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the consolidated operating statement. Depreciation is provided on the straight-line method using rates based on the estimated useful lives of the assets generally as follows:

Buildings	Up to 20 years
Equipment	4 to 10 years
Vehicles	3 to 4 years

(c) Accounting policy—Certain subsidiaries

The statements of Dundee Estates Limited include notes indicating that their statements have been prepared on the assumption that the company can continue to operate as a going concern, which assumption depends on the continued financial support of Cape Breton Development Corporation.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

3. Fixed assets

	1987	1986
	$	$
Rental facilities	9,869,708	6,236,487
Tourist facilities	6,733,689	8,503,872
Primary industry facilities	1,735,253	1,730,627
Secondary industry facilities	7,673,106	7,215,937
	26,011,756	23,686,923
Less: accumulated depreciation	9,401,433	9,970,518
	16,610,323	13,716,405

The four categories of fixed assets shown above each include land, buildings and equipment.

CAPE BRETON DEVELOPMENT CORPORATION—*Concluded*

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

4. Guarantees

During the 1976 year, the Corporation guaranteed the repayment by Sydney Steel Corporation of that corporation's \$70,000,000—11¼% Series D Debentures and the repayment of interest thereon. These funds were borrowed by Sydney Steel Corporation for the purpose of financing its plant rehabilitation program. The balance of the outstanding debentures has since been reduced to \$38,010,000.

The Corporation in 1971 guaranteed the repayment of bank advances to Stora Kopparbergs Bergslags Aktiebolag. This guarantee originally amounted to \$30,000,000. The balance of advances has since been reduced to \$7,500,000.

The Corporation made the guarantees for and on behalf of Her Majesty the Queen in right of Canada; therefore, any amounts required to be paid shall be paid out of the Consolidated Revenue Fund of Canada and not out of funds of Cape Breton Development Corporation.

5. Commitments & Contingency

(a) As at March 31, 1987, the Industrial Development Division of the Corporation was committed to expenditures and loans over and above the amounts included in the financial statements at that time, totalling \$5,300,000.

(b) The Corporation entered an agreement to lease premises in Commerce Tower, effective May 1, 1987, to provide office space for the Industrial Development Division and Enterprise Cape Breton. The lease is for a five year period with lease payments of approximately \$252,000 per annum.

(c) For the fiscal year ending March 31, 1988, Parliament has voted \$10,600,000 to the Industrial Development Division but has reserved \$3,910,000 of this amount pending the completion of a formal memorandum of agreement between Enterprise Cape Breton and the Corporation, which agreement must also be approved by Treasury Board.

SUMMARY PAGE

DEFENCE CONSTRUCTION (1951) LIMITED

MANDATE

To contract for and supervise major military construction and maintenance projects required by the Department of National Defence; to provide technical and administrative assistance concerning construction matters to government departments and agencies on a cost-recovery basis.

BACKGROUND

The corporation has been in operation since 1951.

CORPORATION DATA

HEAD OFFICE	Sir Charles Tupper Building Riverside Drive Ottawa, Ontario K1A 0K3
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1951; by the *Defence Production Act* (R.S.C. 1970, D-2); continued under the *Canada Business Corporations Act*, November 21, 1978
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	J.R. Lorne Atchison
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	1.5	2.6	1.2	1.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.3	1.4	nil	nil
Equity of Canada	(2.9)	(3.1)	(3.1)	(3.2)
Cash from Canada in the period				
— budgetary	13.2	14.3	14.5	12.9
— non-budgetary	nil	nil	nil	nil

DEFENCE CONSTRUCTION (1951) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Defence Construction (1951) Limited as at March 31, 1987 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Defence Production Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 22, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash	1,163,349	2,211,938
Accounts receivable from government departments and agencies	11,424	21,718
Other	23,785	59,985
	1,198,558	2,293,641
Fixed, at cost		
Furniture and equipment	1,029,803	920,399
Less: accumulated depreciation	734,031	618,747
	295,772	301,652
	1,494,330	2,595,293

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued liabilities	1,083,149	1,175,249
Due to Canada	343,074	1,394,606
Contractors' security deposits (Note 3)	181,784	212,567
	1,608,007	2,782,422
Provision for employee benefits (Note 4)	2,801,391	2,875,300
	4,409,398	5,657,722
CAPITAL STOCK AND DEFICIT		
Capital stock		
Authorized—1,000 shares of no par value		
Issued—31 shares fully paid	31	31
Deficit (Note 5)	(2,915,099)	(3,062,460)
	(2,915,068)	(3,062,429)
	1,494,330	2,595,293

Approved by the Board:

J. R. L. ATCHISON
Director

L. E. DAVIES
Director

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Expenses		
Salaries	9,160,516	10,130,929
Employee benefits	1,146,510	1,209,093
Travel and removal	672,623	794,811
Office accommodation	481,239	494,229
Telephone	279,757	277,750
Advertising	208,843	162,466
Postage, express and freight	201,620	179,229
Office supplies and maintenance	175,696	159,417
Depreciation	129,613	126,680
Professional services	113,523	118,283
Rental of machinery	112,289	118,843
Training and professional development	109,044	49,896
Other	43,359	35,356
	12,834,632	13,856,982
Recoveries of expenses (Note 6)	125,067	168,720
Cost of operations	12,709,565	13,688,262
Parliamentary appropriations	12,856,926	13,773,125
Excess of parliamentary appropriations over cost of operations	147,361	84,863
Deficit at beginning of the year	3,062,460	3,147,323
Deficit at end of the year	2,915,099	3,062,460

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Financing activities		
Parliamentary appropriations	12,856,926	13,773,125
Operating activities		
Reported cost of operations	12,709,565	13,688,262
Provision for employee benefits	(262,818)	(582,030)
Depreciation	(129,613)	(126,680)
Gain on sale of fixed assets	1,686	
Net increase (decrease) in non-cash working capital balances related to operations*	1,127,921	(1,833,667)
Cash applied to operations	13,446,741	11,145,885
Employee benefits paid	338,425	618,440
Cash applied to operating activities	13,785,166	11,764,325
Investing activities		
Acquisition of equipment	124,578	112,289
Disposal of equipment	(4,229)	
Cash invested	120,349	112,289
(Decrease) increase in cash during the year	(1,048,589)	1,896,511
Cash at beginning of the year	2,211,938	315,427
Cash at end of the year	1,163,349	2,211,938

* Consisting of changes in receivables, other assets, accounts payable and accrued liabilities, and contractors' security deposits.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. Authority, objectives and operations

The Corporation was incorporated under the Canada Corporations Act in 1951 and is continued under the Canada Business Corporations Act, pursuant to the authority of the Defence Production Act, to contract for major military construction and maintenance projects required by the Department of National Defence. The Corporation is a Crown corporation named in Part I of Schedule C to the Financial Administration Act. The Corporation is not subject to income taxes.

The Corporation's principal functions in the field of construction management are to obtain tenders, make recommendations regarding proposed awards and to award and administer contracts. As an integral part of its responsibility for contract administration, the Corporation inspects the work to ensure completion in accordance with the contract and certifies contractors' progress claims for payment from funds of the Department of National Defence. It also engages architectural and engineering firms to prepare plans and specifications in accordance with the requirements of the Department of National Defence. It may provide technical and administrative assistance on construction matters to other government departments when required.

2. Significant accounting policies

Expenses

The accounts of the Corporation reflect only the administrative expenses incurred in procuring the construction and maintenance of defence projects on behalf of the Department of National Defence and in procuring the construction of such other projects as are approved by Treasury Board.

Depreciation

Depreciation is provided by the straight-line method over five years.

Employee benefits

Employee benefits are expensed when earned by employees.

Pensions

During the year, the Corporation made payments of $513,050 ($549,937 in 1986) in respect of current contributions to the Public Service Superannuation Account of the Government of Canada. The Account is actuarially valued every five years. The Corporation's contributions and recorded liabilities are limited to the matching of the current and certain arrears contributions of employees. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Account.

Parliamentary appropriations

The cost of operations is funded by parliamentary appropriations through the Department of National Defence Vote 15 to the extent of net annual cash requirements.

3. Contractors' security deposits

	1987	1986
	$	$
Bid deposits	144,534	114,220
Deposits on plans and specifications	37,250	98,347
	181,784	212,567

DEFENCE CONSTRUCTION (1951) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

4. Provision for employee benefits

	1987	1986
	$	$
Termination benefits	2,503,721	2,594,083
Life insurance	95,881	79,327
Furlough benefits	201,789	201,890
	2,801,391	2,875,300

5. Deficit

The deficit of the Corporation is comprised primarily of the liabilities for employee benefits which will require funding from parliamentary appropriations in future years as they are paid.

6. Recoveries of expenses

The Corporation provides certain technical and administrative assistance to the Department of National Defence and other government departments and agencies on a cost-recovery basis. As at March 31, 1987, accounts receivable for recoveries were $10,999 (1986—$21,288).

During the year, in the normal course of operations, the Department of National Defence provided office space free of charge for 163 employees of the Corporation.

7. Lease commitments

The Corporation leases certain equipment and accommodation in the performance of its operations. The future aggregate minimum lease payments are:

Year ending March 31	$
1988	62,372
1989	53,987
1990	26,937
	143,296

8. Contingencies

Claims aggregating approximately $5,870,000 in respect of contractual obligations have been received by the Corporation, but are not reflected in the accounts. In the opinion of management and legal counsel, the position of the Corporation is defensible, however the final outcome of such claims is not determinable. Any settlements resulting from the resolution of these claims will be funded through parliamentary appropriations of the Department of National Defence, in the year in which the settlements occur.

9. Supplementary information

The Corporation's contracting activity on behalf of government departments and agencies is summarized below:

	1987	1986
	(in thousands of dollars)	
Contracts in progress at beginning of the year	491,880	404,755
Contracts awarded	265,878	253,221
	757,758	657,976
Contracts completed	235,286	166,096
Contracts in progress at end of the year	522,472	491,880
Payments on contracts in progress at end of the year	388,303	366,931
Work outstanding on contracts in progress at end of the year	134,169	124,949

SUMMARY PAGE

EXPORT DEVELOPMENT CORPORATION

MANDATE

To facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities.

BACKGROUND

Funding from Canada for Corporate Account transactions is provided by loans and equity infusions, but the growth of the corporation's business in recent years has been financed mainly by its borrowing in the private markets. Apart from its corporate activities, EDC administers for Canada certain export financing transactions considered to be in the national interest for Canada, including those made pursuant to section 31 of the *Export Development Act*.

CORPORATION DATA

HEAD OFFICE	151 O'Connor Street P.O. Box 655 Ottawa, Ontario K1P 5T9
STATUS	—Schedule C, Part I —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Patricia Carney, P.C., M.P., Minister for International Trade.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1969; by the *Export Development Act*, (R.S.C. 1970, E-18).
CHIEF EXECUTIVE OFFICER	Robert Richardson
CHAIRMAN	V.E. Daughney
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984 (restated)**	**1983**
CORPORATE ACCOUNT				
At the end of the year				
Total Assets	7,176	7,296	6,635	6,063
Obligations to the private sector*	4,727	4,948	4,431	3,697
Obligations to Canada	80	154	258	376
Equity of Canada	898	896	855	769
Cash from Canada in the year				
—budgetary	nil	nil	nil	nil
—non-budgetary	nil	37	79	116
CANADA ACCOUNT				
At the end of the year				
Canada funds administered	880	1,142	1,061	900

* Obligations to the private sector reported here have been reduced by the amount of EDC's cash and marketable securities (1986, $1,094 million).

EXPORT DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have examined the balance sheet of Export Development Corporation as at December 31, 1986 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Export Development Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 25, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Loans receivable (Note 2)		
Long-term	4,704,165	5,111,485
Short-term	1,118,842	964,741
	5,823,007	6,076,226
Accrued interest and fees	305,945	308,691
	6,128,952	6,384,917
Less: allowance for losses on loans	136,366	105,257
	5,992,586	6,279,660
Cash and marketable securities		
Cash and short-term deposits	523,212	629,021
Marketable securities (market value: 1986—$571,138; 1985—$291,465)	570,554	291,275
Accrued interest	12,494	10,453
	1,106,260	930,749
Other assets		
Unamortized debt discount and issue expenses	50,537	56,477
Other	26,756	29,252
	77,293	85,729
	7,176,139	7,296,138

LIABILITIES	1986	1985
Loans payable (Note 3)		
Long-term	3,569,766	3,906,655
Short-term	2,330,999	2,115,917
Accrued interest	214,143	200,764
	6,114,908	6,223,336
Other liabilities and deferred revenues		
Accounts payable	8,122	19,464
Deferred revenues and other credits	121,752	127,030
Allowance for claims on insurance and guarantees	33,411	30,251
	163,285	176,745
SHAREHOLDER'S EQUITY		
Share capital (Note 4)	697,000	697,000
Reserve for contingencies	25,000	
Retained earnings	175,946	199,057
	897,946	896,057
	7,176,139	7,296,138

Commitments and contingent liabilities (Note 5)

Approved by the Board of Directors:

R. L. RICHARDSON
President and Chief Executive Officer

B. A. CULHAM
Senior Vice-President, Finance and Treasurer

EXPORT DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Loans and guarantees		
Interest earned	556,540	573,220
Fees earned	26,650	23,568
Investment interest earned	71,313	67,357
	654,503	664,145
Interest expense		
Long-term	493,131	481,086
Short-term	104,257	138,273
Provision for losses on loans	36,265	21,618
	633,653	640,977
	20,850	23,168
Insurance and guarantees		
Premiums and fees earned	17,439	16,490
Investment interest earned	4,909	4,877
	22,348	21,367
Provision for claims	7,200	6,781
	15,148	14,586
Income from operations	35,998	37,754
Administrative expenses	34,109	33,243
Net income	1,889	4,511
Retained earnings		
Beginning of year	199,057	194,546
Less: transfer to reserve for contingencies	25,000	
End of year	175,946	199,057

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operations		
Net Income	1,889	4,511
Items not affecting cash		
Provision for claims and losses on loans	43,465	28,399
Amortization of fees and premiums	(36,198)	(33,510)
Decrease (increase) in accruals of interest and fees	13,734	(12,437)
Rescheduling of interest	(53,320)	(29,239)
Fees and premiums received	47,224	42,891
Other changes	(40,967)	(19,460)
	(24,173)	(18,845)
Loans receivable disbursed	(627,422)	(819,980)
Loans receivable repaid	888,851	644,759
Cash provided from (used in) operations	237,256	(194,066)
Treasury		
Issue of long-term debt	572,104	980,291
Repayment of long-term debt	(578,956)	(628,795)
Increase (decrease) in short-term loans payable	(56,934)	20,109
Issue of share capital		37,000
Cash provided from (used in) financing	(63,786)	408,605
Increase (decrease) in cash and marketable securities	173,470	214,539
Cash and marketable securities		
Beginning of year	920,296	705,757
End of year	1,093,766	920,296

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, consistently applied, and conform in all material respects with international accounting standards. A summary of significant accounting policies follows:

Marketable securities

Marketable securities are valued at the lower of cost and market value as at the balance sheet date.

Allowance for losses on loans receivable

The allowance for losses on loans is based on a review of collectibility of all outstanding loans to sovereign and commercial borrowers. In respect of this review, the Corporation recognizes that the future economic and political conditions in some of the countries where the Corporation has made loans are subject to varying degrees of uncertainties and pressures. Accordingly, delays in the repayment of principal and interest may occur from time to time.

In the case of loans made to or guaranteed by sovereign borrowers, that is the governments of countries or their agencies, payment delays are not necessarily indicative of a future loss requiring an allowance. Sovereign entities and their international financial obligations do not have commercial mortality, and the international system does not allow the unilateral denial of a sovereign obligation. Furthermore, the international system provides several mechanisms and institutions through which countries facing repayment difficulties can effect remedial measures in agreement with their creditors. Therefore, except in the rare instance of a write-off of asset value agreed to by creditors, the ultimate collectibility of a sovereign obligation, and thus its asset value, is not, in the opinion of management, subject to question although delays may have to be accepted.

It is the policy of the Corporation to charge to income, in addition to any specific provisions made as a result of the review of the outstanding loans, an amount sufficient to maintain an accumulated non-specific allowance proportionate to the total loan principal and interest receivable for which no specific provision has been made.

Allowance for claims on insurance and guarantees

The Corporation provides for claims based on claims experience augmented, if necessary, by a specific provision based on a review of contingent liabilities. Claims payments are recorded at estimated recoverable values and included with other assets and non-recoverable amounts are charged to the allowance. Subsequent net gains or losses on recovery are credited or charged to income.

Reserve for contingencies

The Corporation has in 1986 established a reserve account, through transfers from retained earnings, as a contingency with respect to possible unforeseen decreases in the value of loans receivable or claims on insurance and guarantees. Subsequent reductions, if any, in the reserve for contingencies will be credited to retained earnings.

Loan interest and fees earned

Interest is accrued on principal receivable until such time as the loan becomes non-current. Non-current is defined as any loan where there is significant doubt as to collectibility, where significant payments have not been received for a period of two years and a rescheduling agreement has not been negotiated, or when a rescheduling agreement has been signed and a significant payment has not been received for one year.

Loan fees are taken into income over the disbursement and repayment periods of a loan.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

Investment interest earned

Investment interest, which is substantially earned outside Canada, is prorated between loans and guarantees and insurance and guarantees on the basis of average funds investment.

Interest expense

Interest expense includes the amortization of debt discount and issue expenses which is charged over the life of the debt on a straight line basis.

Insurance premiums

Insurance premiums and fees are earned in Canada. For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Foreign investment insurance premiums are taken into income evenly over the terms of coverage, except that the premium in the first year is taken into income in its entirety when received.

Translation of foreign currency

The Corporation hedges its U.S. dollar assets and liabilities on a total portfolio basis. Any net exposure to future changes in the U.S. dollar foreign exchange rate is due to short-term timing differences in cash flows. It is the Corporation's policy to manage assets and liabilities denominated in U.S. dollars in such a way as to minimize this net exposure. Accordingly, assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at exchange rates prevailing at year-end.

Gains and losses relating to the translation of any unhedged long-term foreign currency assets or liabilities in other than U.S. dollars are deferred and amortized on a straight line basis over the remaining life of the asset or liability. The unamortized balance of the deferred exchange gains or losses is included in deferred revenues or other assets.

Income and expenses are translated at average monthly exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are reported with investment interest earned.

2. Loans receivable

Loans receivable from both sovereign and commercial borrowers are mostly at fixed interest rates established in competition with similar export credit agencies in other countries and generally below commercial rates. These loans mature as follows:

	December 31	
	1986	1985
	(in thousands of dollars)	
Within 12 months		
—Fixed	659,039	691,178
—Floating	64,417	56,625
Overdue	395,386	216,938
1987		751,472
1988	779,624	788,687
1989	759,469	767,706
1990	679,787	672,766
1991	620,294	581,887
1992 to 1996	1,505,538	1,257,130
1997 and thereafter	359,453	291,837
Total	5,823,007	6,076,226
Commercial loans included above	1,034,291	1,167,519
Floating rate loans, generally based on Libor rates, included in total loans	731,407	568,842

The geographic distribution of these loans is as follows:

	December 31	
	1986	1985
	(in thousands of dollars)	
Pacific and North Asia	550,064	623,254
South Asia	310,891	244,429
Middle East and East Africa	471,345	473,531
North and West Africa	1,214,101	1,237,147
Eastern Europe	737,921	707,171
Western Europe	595,762	648,528
USA and Caribbean	546,625	771,643
Mexico and Central America	293,721	337,506
South America East	539,433	500,939
South America West	563,144	532,078
	5,823,007	6,076,226

Interest on non-current loans not recognized as revenue in 1986 amounted to $71,929 thousand (1985—$43,824 thousand). At December 31, 1986, the accumulated interest not accrued on loans amounted to $114,487 thousand (1985—$49,555 thousand).

The geographic distribution of the overdue principal and recognized interest, in the amounts of $395,386 thousand (1985—$216,938 thousand) and $218,588 thousand (1985—$214,322 thousand) respectively, is as follows:

	December 31	
	1986	1985
	(in thousands of dollars)	
Pacific and North Asia	1,062	1,716
South Asia	3	820
Middle East and East Africa	15,907	20,420
North and West Africa	54,225	40,548
Eastern Europe	105,620	90,540
Western Europe	16,053	8,442
USA and Caribbean	122,309	15,006
Mexico and Central America	49,067	30,199
South America East	129,978	125,861
South America West	119,750	97,708
	613,974	431,260

In order to facilitate the collectibility of some loans or portions of loans, the Corporation has rescheduled principal and interest payments in the following amounts:

	December 31	
	1986	1985
	(in thousands of dollars)	
During the year		
Principal	95,919	52,143
Interest	53,320	29,239
	149,239	81,382
Balance of rescheduled loans outstanding		
Sovereign	379,387	289,465
Commercial	35,552	36,752
	414,939	326,217
Amounts overdue	28,068	21,806

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

3. Loans payable

Loans payable mature as follows:

	December 31 1986	December 31 1985
	(in thousands of dollars)	
Within 12 months		
—Fixed	767,724	480,578
—Floating	1,563,275	1,635,339
1987		792,231
1988	1,144,970	1,180,185
1989	551,233	538,828
1990	773,741	781,915
1991	351,849	355,741
1992 to 1996	747,973	257,755
Total	5,900,765	6,022,572
Commercial loans included above Fixed interest rates from 5.38% to 15.55% (1985—5.38 to 16.88%)	4,216,407	4,120,221
Floating rate and short-term fixed rate revolving loans	1,604,358	1,747,854
Canada loans included above Fixed interest rates from 8.25% to 8.50% (1985—5.50 to 9.13%)	80,000	154,497

The Corporation also had lines of credit and overdraft facilities aggregating $3,201 million at December 31, 1986 (1985—$3,211 million).

4. Share capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is as follows:

	December 31 1986	December 31 1985
	(in thousands)	
Beginning of year	6,970	6,600
Issued		370
End of year	6,970	6,970

5. Statutory limits, commitments and contingent liabilities

The Export Development Act (the Act) allows the Corporation to have outstanding loans and commitments to foreign borrowers up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $8,370 million (1985—$8,894 million). Of this amount, undisbursed commitments on signed loan agreements at face rates from 6.94% to 12.5% is $2,549 million (1985—$2,846 million) with the balance representing loans receivable and loans with recourse to the Corporation.

The Corporation expects to fund these undisbursed commitments near the time of their disbursement, typically over a three year period, by issuing a combination of debt instruments in world capital markets at commercial rates of interest and capital stock. The Corporation generally attempts to match debt maturities and currencies with those of its average export loans.

The Act also specifies that the Corporation can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maxium of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $2,930 million (1985—$2,692 million).

Contingent liabilities of the Corporation included in the above positions amounted to $2,123 million (1985—$1,875 million). Of this amount, $245 million (1985—$213 million) related to loan guarantees and loans with recourse to the Corporation. The balance pertained to the Corporation's insurance activities.

The Act allows the Corporation to borrow up to a maximum of ten times the aggregate of its paid-in capital from time to time and the retained earnings determined in accordance with the most recent audited financial statements. As at December 31, 1986, this formula produced a limit of $8,961 million (1985—$8,915 million) against which borrowings amounted to $5,901 million (1985—$6,023 million).

6. Foreign currency balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. The Canadian dollar equivalent after taking into consideration forward exchange contracts is as follows:

	December 31 1986	December 31 1985
	(in thousands of dollars)	
U.S. Dollars		
Assets	5,250,209	5,369,446
Liabilities	5,389,775	5,560,755
Net exposure	(139,566)	(191,309)
Rate of exchange U.S. $1.00	1.3805	1.3983
British pounds, Deutsche marks, European Currency Units, Swiss francs and Yen		
Assets	77,936	42,857
Liabilities	66,601	36,448
Net exposure	11,335	6,409

7. Related party transactions

Transactions with Canada are summarized as follows:

	Year ended December 31 1986	Year ended December 31 1985
	(in thousands of dollars)	
Income and expense items		
Interest expense	8,320	14,853
Less: administrative expenses recovered	7,101	6,476
interest earned	472	467
	747	7,910

	December 31 1986	December 31 1985
	(in thousands of dollars)	
Amounts due to (due from) Canada		
Canada bonds, bearing interest at the rate of 9.50% maturing in 1994	(5,038)	(5,043
Accrued interest receivable	(23)	(21
Accounts administered for Canada (Note 8)	3,085	13,416
Long-term loans payable	80,000	154,497
Accrued interest payable	1,420	3,647
	79,444	166,496

EXPORT DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

The Government of Canada intends to recommend that Parliament appropriate such funds as are necessary to cover losses, if any, of the Corporation. To date, no such funds have been necessary.

The Corporation is not subject to the requirements of the Income Tax Act with respect to its earnings.

The Corporation also enters into transactions with other Crown corporations in the normal course of business.

8. Accounts administered for Canada

(a) Pursuant to the Act, the Corporation administers for Canada certain loans and insurance programs entered into under the authority of the Governor in Council for which the Board of Directors is not accountable other than in respect of the administration of the contracts. These accounts are maintained separately from the Corporation's accounts, and are consolidated annually as at March 31 with the financial statements of the Government of Canada which are reported upon separately by the Auditor General of Canada. The assets administered for Canada, mainly loans receivable and accrued interest and fees recorded in accordance with accounting policies and practices approved by the Government of Canada, amounted to $880 million (1985—$1,142 million).

(b) Canada account statutory limits, commitments and contingent liabilities

The Act allows the Accounts administered for Canada to have outstanding loans and commitments to foreign borrowers up to a maximum of $6 billion. The position against this limit, determined in accordance with the requirements of the Act, is $823 million (1985—$1,438 million), including contingent liabilities of $9 million (1985—$13 million).

The Act also specifies that the Accounts administered for Canada can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maximum of $7 billion. The position against this limit, determined in accordance with the requirements of the Act, was $430 million (1985—$428 million) including contingent liabilities of $376 million (1985—$374 million).

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

3. Loans payable

Loans payable mature as follows:

	December 31 1986	December 31 1985
	(in thousands of dollars)	
Within 12 months		
—Fixed	767,724	480,578
—Floating	1,563,275	1,635,339
1987		792,231
1988	1,144,970	1,180,185
1989	551,233	538,828
1990	773,741	781,915
1991	351,849	355,741
1992 to 1996	747,973	257,755
Total	5,900,765	6,022,572
Commercial loans included above Fixed interest rates from 5.38% to 15.55% (1985—5.38 to 16.88%)	4,216,407	4,120,221
Floating rate and short-term fixed rate revolving loans	1,604,358	1,747,854
Canada loans included above Fixed interest rates from 8.25% to 8.50% (1985—5.50 to 9.13%)	80,000	154,497

The Corporation also had lines of credit and overdraft facilities aggregating $3,201 million at December 31, 1986 (1985—$3,211 million).

4. Share capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is as follows:

	December 31 1986	December 31 1985
	(in thousands)	
Beginning of year	6,970	6,600
Issued		370
End of year	6,970	6,970

5. Statutory limits, commitments and contingent liabilities

The Export Development Act (the Act) allows the Corporation to have outstanding loans and commitments to foreign borrowers up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $8,370 million (1985—$8,894 million). Of this amount, undisbursed commitments on signed loan agreements at face rates from 6.94% to 12.5% is $2,549 million (1985—$2,846 million) with the balance representing loans receivable and loans with recourse to the Corporation.

The Corporation expects to fund these undisbursed commitments near the time of their disbursement, typically over a three year period, by issuing a combination of debt instruments in world capital markets at commercial rates of interest and capital stock. The Corporation generally attempts to match debt maturities and currencies with those of its average export loans.

The Act also specifies that the Corporation can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maxium of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $2,930 million (1985—$2,692 million).

Contingent liabilities of the Corporation included in the above positions amounted to $2,123 million (1985—$1,875 million). Of this amount, $245 million (1985—$213 million) related to loan guarantees and loans with recourse to the Corporation. The balance pertained to the Corporation's insurance activities.

The Act allows the Corporation to borrow up to a maximum of ten times the aggregate of its paid-in capital from time to time and the retained earnings determined in accordance with the most recent audited financial statements. As at December 31, 1986, this formula produced a limit of $8,961 million (1985—$8,915 million) against which borrowings amounted to $5,901 million (1985—$6,023 million).

6. Foreign currency balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. The Canadian dollar equivalent after taking into consideration forward exchange contracts is as follows:

	December 31 1986	December 31 1985
	(in thousands of dollars)	
U.S. Dollars		
Assets	5,250,209	5,369,446
Liabilities	5,389,775	5,560,755
Net exposure	(139,566)	(191,309)
Rate of exchange U.S. $1.00	1.3805	1.3983
British pounds, Deutsche marks, European Currency Units, Swiss francs and Yen		
Assets	77,936	42,857
Liabilities	66,601	36,448
Net exposure	11,335	6,409

7. Related party transactions

Transactions with Canada are summarized as follows:

	Year ended December 31 1986	Year ended December 31 1985
	(in thousands of dollars)	
Income and expense items		
Interest expense	8,320	14,853
Less: administrative expenses recovered	7,101	6,476
interest earned	472	467
	747	7,910

	December 31 1986	December 31 1985
	(in thousands of dollars)	
Amounts due to (due from) Canada		
Canada bonds, bearing interest at the rate of 9.50% maturing in 1994	(5,038)	(5,043
Accrued interest receivable	(23)	(21
Accounts administered for Canada (Note 8)	3,085	13,416
Long-term loans payable	80,000	154,497
Accrued interest payable	1,420	3,647
	79,444	166,496

EXPORT DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

The Government of Canada intends to recommend that Parliament appropriate such funds as are necessary to cover losses, if any, of the Corporation. To date, no such funds have been necessary.

The Corporation is not subject to the requirements of the Income Tax Act with respect to its earnings.

The Corporation also enters into transactions with other Crown corporations in the normal course of business.

8. Accounts administered for Canada

(a) Pursuant to the Act, the Corporation administers for Canada certain loans and insurance programs entered into under the authority of the Governor in Council for which the Board of Directors is not accountable other than in respect of the administration of the contracts. These accounts are maintained separately from the Corporation's accounts, and are consolidated annually as at March 31 with the financial statements of the Government of Canada which are reported upon separately by the Auditor General of Canada. The assets administered for Canada, mainly loans receivable and accrued interest and fees recorded in accordance with accounting policies and practices approved by the Government of Canada, amounted to $880 million (1985—$1,142 million).

(b) Canada account statutory limits, commitments and contingent liabilities

The Act allows the Accounts administered for Canada to have outstanding loans and commitments to foreign borrowers up to a maximum of $6 billion. The position against this limit, determined in accordance with the requirements of the Act, is $823 million (1985—$1,438 million), including contingent liabilities of $9 million (1985—$13 million).

The Act also specifies that the Accounts administered for Canada can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maximum of $7 billion. The position against this limit, determined in accordance with the requirements of the Act, was $430 million (1985—$428 million) including contingent liabilities of $376 million (1985—$374 million).

SUMMARY PAGE

FARM CREDIT CORPORATION

MANDATE

To assist Canadian farmers to establish and develop viable farm enterprises through the provision of long-term credit and other financial services.

BACKGROUND

Since 1959, under the authority of the *Farm Credit Act*, the corporation has made loans to farmers for the purchase of farm land, livestock and machinery, for permanent farm improvements and to refinance debt. Under the authority of the *Farm Syndicates Credit Act*, the corporation may make loans to groups of farmers for the joint acquisition of agricultural facilities and equipment. The maximum loan for an individual farm is $600,000 and for a syndicate is $100,000. As of March 31, 1987 the corporation had 75,487 loans outstanding. The corporation has 573 permanent employees stationed at headquarters, seven regional offices and about 90 district and field offices.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2314, Station D 434 Queen Street Ottawa, Ontario K1P 6J9
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Wise, P.C., M.P.
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1959; by the *Farm Credit Act* (R.S.C. 1970, F-2). Its predecessor was the Canadian Farm Loan Board, founded in 1929.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Eiliv H. Anderson
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	4,914	5,015	4,940	4,901
Obligations to the private sector	1,600	984	571	306
Obligations to Canada	3,305	3,896	4,110	4,310
Equity of Canada	(125)	8	129	131
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	(591)	(214)	(171)	378

FARM CREDIT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for losses on loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared by management in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

Eiliv H. Anderson
Chairman and Chief Executive Officer

William G. Mann, C.A.
Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1987 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 10, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Cash and short-term investments	88,494	112,348
Accounts receivable	1,678	192
Loans receivable (Note 3)	4,961,385	4,984,298
Less: allowance for losses on loans (Note 4)	219,000	155,800
	4,742,385	4,828,498
Real estate	53,771	45,805
Fixed assets	2,957	1,983
Unamortized debt discount and issue expenses	24,799	26,210
	4,914,084	5,015,036

LIABILITIES	1987	1986
Accounts payable and accrued liabilities	9,223	6,842
Short-term notes	271,571	237,497
Provision for employee termination benefits	4,190	4,583
Loans payable (Note 5)	4,753,891	4,758,415
	5,038,875	5,007,337
EQUITY (DEFICIENCY) OF CANADA		
Contributed capital (Note 6)	218,333	218,333
Deficit	343,124	210,634
	(124,791)	7,699
	4,914,084	5,015,036

The accompanying notes are an integral part of the financial statements.

Approved by:

EILIV H. ANDERSON
Chairman and Chief Executive Officer

WILLIAM G. MANN, C.A.
Chief Financial Officer

FARM CREDIT CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Interest income		
Loans receivable	465,380	474,876
Investments	13,727	11,098
	479,107	485,974
Interest expense		
Loans payable	462,102	452,978
Short-term notes	21,985	21,727
	484,087	474,705
Net interest income	(4,980)	11,269
Provision for losses on loans	98,322	99,351
	(103,302)	(88,082)
Loan fees and charges	3,885	1,637
	(99,417)	(86,445)
Administrative expenses		
Salaries and employee benefits	23,947	26,298
Travel	2,358	2,494
Office accommodation	2,445	2,429
Other	4,323	3,740
	33,073	34,961
Loss for the year	(132,490)	(121,406)
Deficit at beginning of the year	210,634	89,228
Deficit at end of the year	343,124	210,634

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CASH POSITION FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operating activities		
Loss for the year	(132,490)	(121,406)
Items not involving cash		
Provision for losses on loans	98,322	99,351
Increase in interest due on loans receivable	(71,594)	(61,450)
Net change in accrued interest	23,435	3,800
Other	11,053	6,640
	(71,274)	(73,065)
Loans to farmers	(315,060)	(235,268)
Loans receivable repaid	323,198	207,201
Proceeds from disposal of real estate	19,465	16,566
Other	(1,080)	3,903
Cash used in operating activities	(44,751)	(80,663)
Financing activities		
Loans from Canada		42,500
Loans repaid to Canada	(591,155)	(256,868)
Loans from capital markets	581,554	273,459
Debt issue expenses	(3,576)	(6,083)
Net increase in short-term notes	34,074	140,164
Cash provided by financing activities	20,897	193,172
Net increase (decrease) in cash and short-term investments	(23,854)	112,509
Cash and short-term investments (bank indebtedness) at beginning of the year	112,348	(161)
Cash and short-term investments at end of the year	88,494	112,348

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1987

1. The Corporation

Farm Credit Corporation was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is a Crown corporation named in Schedule C, Part I of the Financial Administration Act. The Corporation's prime objective is to assist Canadian farmers to establish and develop viable farm enterprises through the use of long-term credit as provided for by the Farm Credit Act.

The Corporation also administers the lending program authorized under the Farm Syndicates Credit Act which was originally introduced as the Farm Machinery Syndicates Credit Act in 1964. It provides for loans to groups or syndicates of farmers organized to share in the purchase and use of farm machinery, buildings and installed equipment.

In addition, the Corporation also administers certain programs assigned to it by the government. In the February 26, 1986 Budget, the government directed the Corporation to establish a $700.0 million Commodity-based Loan Program for existing clients who are experiencing financial difficulty and who meet the eligibility criteria. Under this program, reduced interest rates are available to borrowers and the loan principal is indexed to changes in commodity prices. The resulting net cash flow deficiencies are made up by the government to a maximum of $20.0 million for 1986-87 and $50.0 million for 1987-88.

In view of Canada's deficiency of equity in the Corporation and FCC's current financial condition, discussions are underway with the government to develop a financial recovery plan. A wide range of options is being considered. However, the government has yet to make a decision in this regard.

The Corporation operates in one business segment, providing long-term loans to Canadian farmers.

2. Significant accounting policies

(a) Allowance for losses on loans

The allowance for losses on loans represents an estimate of probable losses on the accounts outstanding at the end of the year and is based on a review of collectability of outstanding loans. Attention is focused on loans which are in arrears. With respect to this estimate, the Corporation recognizes that future economic and agricultural conditions are not predictable and, therefore, their impact on the collectability of loans is uncertain.

Actual losses on loans and write-downs of acquired real estate to net realizable value are charged to the allowance while recoveries of losses on loans are credited to the allowance. The adjustment of the allowance to the appropriate level is charged to operations as a provision for losses on loans. In addition to a specific allowance made as a result of the review of the outstanding loans in arrears, a general allowance is established to provide for losses on loans which have not yet been specifically identified.

(b) Revenue recognition

Interest income is recorded on an accrual basis. Interest is not recognized on non-performing loans. A non-performing loan is defined as a loan where, in management's opinion, there is reasonable doubt as to collectability.

Loan fees and charges are recorded when earned.

(c) Real estate

Real estate is carried at the lower of cost and net realizable value. It represents farm property acquired in the process of administering the outstanding loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

(d) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation or amortization. Leasehold improvements are amortized using the straight-line method over the term of the lease and one renewal period. Computer hardware and software are depreciated using the straight-line method over their estimated useful lives. Other fixed assets are depreciated using the diminishing balance method.

(e) Debt discount and issue expenses

Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

(f) Translation of foreign currencies

Loans payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are considered to be financing costs and are therefore amortized by charges to interest expense over the lives of the obligations on a straight-line basis. The related interest payable in foreign currencies on these debt issues is also hedged by currency conversion agreements and is translated into Canadian dollars at such contract rates.

(g) Pension plan

The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made equally by both employees and the Corporation, and these contributions are expensed during the year in which the services are rendered.

(h) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to severance benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Income taxes

The Corporation records income taxes on the tax allocation basis which recognizes the income tax effect of transactions when they are recorded in accounting income, regardless of when such items are recognized for tax purposes.

3. Loans receivable

	Maturities not exceeding	Annual interest rate %	1987	1986
			(in thousands of dollars)	
Loans to farmers, secured by mortgages	24 years	5-7 ⅞	556,501	609,767
	25 years	8-10 ⅞	2,070,218	1,812,994
	26 years	11-12 ⅞	1,561,319	1,650,900
	26 years	13-16 ¾	730,084	871,147
			4,918,122	4,944,808
Loans to farm syndicates, secured by notes	15 years	6 ¼-17 ½	7,573	9,012
Loans receivable from real estate sales, secured by agreements for sale or mortgages	26 years	5-15 ¾	35,690	30,478
			4,961,385	4,984,298

Maturities by fiscal year are as follows:

	1987	1986
	(in thousands of dollars)	
Past due	56,325	41,985
1987		76,206
1988	148,220	139,920
1989	163,554	149,770
1990	581,787	615,339
1991	289,975	221,937
1992	316,935	240,961
1993 through 2014	2,964,006	3,072,894
	4,520,802	4,559,012
Accrued interest	440,583	425,286
	4,961,385	4,984,298

During the year, interest not recognized on non-performing loans amounted to $55.4 million, (1986—$40.0 million). At March 31, 1987, the accumulated interest not recognized on non-performing loans amounted to $95.4 million.

Prepayments of principal from farmers of $215.9 million (1986—$106.3 million) were received during the year.

During the year, Commodity-based Loans in the amount of $242.6 million were disbursed. Of this amount, $13.5 million was used to pay arrears on the Corporation's previous loans.

4. Allowance for losses on loans

The allowance for losses on loans as at March 31, 1987, has been reduced by $15.0 million. This represents the balance of a $20.0 million commitment made in the February 26, 1986 Budget as part of the federal government's Farm Financial Assistance Package. The intent of this allocation was to reduce the impact of probable losses on the Corporation.

In addition, certain amounts relating to interest which were previously included in the 1986 comparative amounts of the loans receivable and the allowance for losses on loans have been restated to conform to the presentation adopted in 1987.

5. Loans payable

	Maturities not exceeding	Annual interest rate %	1987	1986
			(in thousands of dollars)	
Loans from Canada, secured by notes Farm Credit Act	10 years	6-7 ½	538,748	625,951
	14 years	8-10 ¾	1,460,830	1,529,561
	15 years	11-12 ¼	1,298,898	1,730,977
			3,298,476	3,886,489
Farm Syndicates Credit Act	7 years	9 ¾-16 ½	6,030	9,172
			3,304,506	3,895,661
Loans from capital markets, secured by notes Farm Credit Act	10 years	8 ¾-12 ¼	1,319,128	735,312
Amounts owing in respect of interest rate and currency conversion agreements	7 years	8 ¾-11	9,028	11,290
			4,632,662	4,642,263
Accrued interest			121,229	116,152
			4,753,891	4,758,415

FARM CREDIT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

Maturities by fiscal year are as follows:

	1987	1986
	(in thousands of dollars)	
1987		211,702
1988	201,851	211,885
1989	209,756	230,534
1990	855,290	861,462
1991	454,229	460,136
1992	334,697	346,651
1993 through 2005	2,576,839	2,319,893
	4,632,662	4,642,263
Accrued interest	121,229	116,152
	4,753,891	4,758,415

6. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under Section 12 of the Farm Credit Act. The statutory limit on this amount is $225.0 million (1986—$225.0 million). During the year, no capital was contributed by Canada.

7. Income taxes

As at March 31, 1987 the Corporation has available various timing differences of approximately $321.0 million which have not been recognized in the accounts since these will not be utilized in the foreseeable future. These result primarily from differences between the provision for losses on loans charged to operations and the amount claimed for tax purposes pursuant to Section 33 of the Income Tax Act.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $13.0 million. Of this amount, $7.0 million will expire on March 31, 1993 and $6.0 million will expire March 31, 1994.

8. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the capital of the Corporation. At March 31, 1987 the Corporation's outstanding borrowings under this Act, comprising short-term notes of $271.6 million and loans payable of $4,617.6 million, were 22.39 times the capital of $218.3 million (1986—22.26 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to twenty-five million dollars. At March 31, 1987 the Corporation's loans from Canada under this Act were $6.0 million (1986—$9.2 million).

9. Commitments to farmers

As at March 31, 1987, loans to farmers approved but not disbursed amounted to $62.2 million (1986—$44.3 million). Of this amount, $53.3 million were for regular loan approvals, most of which were approved at rates from 10.75% to 11.50%. The balance of $8.9 million is related to Commodity-based Loans approved at rates of 6% and 8.50%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1987.

10. Operating leases

The future minimum lease payments by fiscal year required under operating leases having initial non-cancellable lease terms in excess of one year are as follows:

	(in thousands of dollars)
1988	1,426
1989	1,157
1990	1,004
1991	790
1992	500
1993 and subsequent	1,439
	6,316

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of those amounts established at the commencement of the lease term.

11. Subsequent events

As an interim measure, effective April 1, 1987 and pending approval of Farm Credit Corporation's recovery plan, the Corporation has discontinued all financial market borrowings. Any required borrowing or refinancing, including any short-term requirements, will be made from the Consolidated Revenue Fund and will be subject to the approval of the Minister of Finance.

The moratorium on foreclosures was lifted on May 1, 1987. Accordingly, the Corporation may commence foreclosure actions after all alternatives have been considered.

12. Comparative figures

Certain 1986 comparative figures have been reclassified to reflect the presentation adopted in 1987.

SUMMARY PAGE

FEDERAL BUSINESS DEVELOPMENT BANK

MANDATE

To promote and assist in the establishment and development of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice.

BACKGROUND

Since 1974, the Bank has provided financial assistance to Canadian firms by acting as a supplementary lender and a source of equity financing. It also provides financial planning, counselling and training, information and other management services to small business.

CORPORATION DATA

HEAD OFFICE	800 Victoria Square Box 335 Stock Exchange Tower Station Montreal, Quebec H4Z 1L4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Robert R. de Cotret, P.C., M.P.
DEPARTMENT	Regional Industrial Expansion and Science and Technology
YEAR AND MEANS OF INCORPORATION	1974; by the *Federal Business Development Bank Act* (S.C. 1974-75-76, C. 14); (successor to the Industrial Development Bank, established 1944).
CHIEF EXECUTIVE OFFICER	Guy A. Lavigueur
CHAIRMAN	William J. McAleer
AUDITOR	Price Waterhouse

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	1,920	1,595	1,566	1,616
Obligations to the private sector	1,563	1,184	1,023	921
Obligations to Canada	51	144	263	420
Equity of Canada	242	207	202	200
Cash from Canada in the period				
— budgetary	55	26	31	78
— non-budgetary	nil	nil	nil	nil

FEDERAL BUSINESS DEVELOPMENT BANK

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of the Federal Business Development Bank in accordance with accounting principles generally accepted in Canada, consistently applied. The financial data contained in other sections of this annual report is consistent with the content of the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Internal Audit and the Independent Auditor have full and free access to the Audit Committee of the Bank's Board of Directors which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been examined and reported upon by the Bank's independent auditor, Mr. Raymond J. Morcel, F.C.A. of Price Waterhouse, Chartered Accountants.

Guy A. Lavigueur
President

AUDITORS' REPORT

THE HONOURABLE MINISTER OF REGIONAL INDUSTRIAL EXPANSION
THE HONOURABLE MINISTER OF STATE SMALL BUSINESSES AND TOURISM

I have examined the balance sheet of the Federal Business Development Bank as at March 31, 1987, and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Federal Business Development Bank as at March 31, 1987, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, I have examined the transactions that came to my notice in the course of the above mentioned examination of the financial statements of the Federal Business Development Bank for the year ended March 31, 1987, to determine whether they were in accordance with Part XII of the Financial Administration Act, the regulations, the FBDB Act and the by-laws of the Bank. My examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. In my opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Raymond J. Morcel, F.C.A.
of Price Waterhouse

Montreal, June 10, 1987

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1987	1986
Cash	2,272	968
Treasury bills	15,664	14,093
	17,936	15,061
Loans	1,921,884	1,646,695
Venture capital investments (Note 3)	43,133	35,108
Interest due and accrued	14,623	21,657
	1,979,640	1,703,460
Less: accumulated provision for losses (Note 4)	125,565	141,831
	1,854,075	1,561,629
Long-term investment (Note 5)	28,000	
Fixed assets, less accumulated depreciation	2,007	5,766
Unamortized debt issue expenses	10,392	8,501
Other assets	7,814	4,030
	1,920,224	1,594,987

LIABILITIES	1987	1986
Cheques outstanding	6,755	10,513
Short-term notes	430,226	365,359
Accrued interest on short and long-term notes	48,031	41,601
Other liabilities	9,874	8,251
	494,886	425,724
Notes held by Canada (Note 6)	51,000	144,000
Notes payable, other than to Canada (Note 7)	1,132,718	818,371
	1,678,604	1,388,095
CAPITAL		
Capital paid in by Canada (Note 8)	484,600	456,600
Deficit	(242,980)	(249,708)
	241,620	206,892
	1,920,224	1,594,987

Approved by the Board:

H. BLOOMFIELD
Director

GUY A. LAVIGUEUR
Director

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

FINANCIAL SERVICES

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Interest and Investment Income		
Loans	230,806	210,139
Venture capital investments	8,072	8,054
	238,878	218,193
Interest Expense		
Long-term notes	111,628	103,507
Short-term notes	36,534	35,195
	148,162	138,702
Net interest and investment income	90,716	79,491
Provision for losses on loans, guarantees and venture capital investments	29,671	24,041
Net interest and investment income after provision for losses	61,045	55,450
Non-Interest Expenses		
Salaries and staff benefits	34,123	30,946
Premises and equipment, including depreciation	7,335	7,160
Other expenses	12,859	12,515
	54,317	50,621
Net income (Note 13)	6,728	4,829
Net income attribuable to Loans Division	1,379	1,456
Venture Capital Division	5,349	3,373

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Deficit, beginning of year	(249,708)	(254,537)
Net income	6,728	4,829
Deficit, end of year	(242,980)	(249,708)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Operations		
Net income	6,728	4,829
Items not requiring an outlay of cash		
Provision for losses	29,671	24,041
Depreciation	860	1,032
Amortization of debt issue expenses	2,603	3,079
Net changes in accrued interest	13,464	(541)
Other	3,762	3,048
	57,088	35,488
Disbursements to borrowers and investees	(701,667)	(482,751)
Purchase of long-term investment	(28,000)	
Repayments by borrowers and investees	369,492	351,758
Cash used in operations	(303,087)	(95,505)
Treasury		
Issue of long-term notes	460,000	378,418
Repayment of long-term notes	(238,653)	(382,755)
Net increase in short-term notes	64,867	46,470
Capital paid in by Canada	28,000	
Sale of securities		40,495
Debt issue expenses	(4,494)	(8,209)
	309,720	74,419
Increase (decrease) in cash and Treasury bills, net of cheques outstanding	6,633	(21,086)
Cash and Treasury bills, net of cheques outstanding		
Beginning of year	4,548	25,634
End of year	11,181	4,548

MANAGEMENT SERVICES

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1987	1986
Salaries and staff benefits	18,724	16,662
Premises and equipment	3,664	3,251
Other expenses	11,303	11,768
Total expenditures	33,691	31,681
Less: revenue from CASE counselling, training seminar registration and other activities	6,840	5,752
Amount recovered from the Department of Regional Industrial Expansion Vote 50 (Vote 45 in 1986)	26,851	25,929
Net expenditures were incurred as follows		
Management Counselling	9,537	9,671
Management Training	5,223	6,400
Information Services	12,091	9,858
	26,851	25,929

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Objectives and operations of the Corporation

Federal Business Development Bank is a Crown corporation wholly-owned by the Government of Canada, which was established December 20, 1974, by the Federal Business Development Bank Act, as the successor to the Industrial Development Bank which commenced operations in 1944.

The objectives of the Bank, as stated in the Act, are to promote and assist in the establishment of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice; giving particular consideration to the needs of small business enterprises.

The Bank's lending and venture capital operations are carried out by Financial Services. Management Services includes counselling, training and information services. A statement of operations is shown for Management Services since it is funded separately by Parliamentary appropriation.

Federal Business Development Bank is for all purposes of its Act an agent of the Government of Canada, and as such all liabilities of the Corporation are direct obligations of the Government of Canada.

The Bank is exempt from income taxes.

2. Significant accounting policies

Loans and venture capital investments

Loans and venture capital investments are recorded at principal amounts.

Provision for losses on loans, guarantees and venture capital investments

Provisions are established for specifically identified probable losses on loans, guarantees and venture capital investments, as well as for anticipated but unidentified losses. The specific provision is established on an account by account basis whereas the general provision is based on historical experience and is intended to cover losses on loans, guarantees and venture capital investments which have not yet been specifically identified.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except that interest is not accrued on loans where management believes that the interest will not be recovered. Dividends, interest and capital gains on venture capital investments are recorded as income when received.

Fixed assets and depreciation

Fixed assets are recorded at cost.

Depreciation is charged against income using the straight-line or diminishing balance methods in amounts sufficient to amortize the cost of fixed assets over their estimated useful lives.

With respect to the Management Services function of the Bank, all capital expenditures are recovered from the Department of Regional Industrial Expansion and hence are not capitalized.

Debt issue expenses

Discounts, premiums and expenses related to the issue of the long-term debt are amortized on a straight-line basis over the term of the obligations to which they pertain and charged to interest expense.

Translation of foreign currencies

Notes payable in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rates provided therein. The difference between the ultimate amount payable at the contracted rate and the cash proceeds of the issue is considered to be a financing cost and is therefore amortized by a charge to interest expense over the life of the obligation on a straight-line basis. The unamortized portion of these costs is included with unamortized debt issue expenses in the balance sheet. The related interest payable on these note issues is also hedged by forward exchange contracts and is translated into Canadian dollars at such contract rates.

3. Venture capital investments

	1987	1986
	(in thousands of dollars)	
Shares	24,960	20,046
Shareholder advances	1,927	10,657
Participating debentures	14,476	1,242
Convertible debentures	1,770	3,163
	43,133	35,108

4. Accumulated provision for losses

	1987	1986
	(in thousands of dollars)	
Accumulated provision, beginning of year	141,831	157,737
Amounts written off during the year	(48,961)	(43,849)
Recovery of amounts previously written off	3,024	3,902
	95,894	117,790
Additional provision required for the year	29,671	24,041
Accumulated provision, end of year	125,565	141,831

5. Long-term investment

Pursuant to a Directive dated October 16, 1986, given by the Government of Canada to the Federal Business Development Bank under section 99 of the Financial Administration Act, the Bank has been directed to purchase from Cominco Ltd. 790,000 series "E" preferred shares for an amount of $79 million in three tranches. The first tranche of 280,000 preferred shares for $28 million was made during the year. The second tranche of $28 million was made on April 1, 1987, and the final tranche of $23 million is scheduled for fiscal 1989.

Cominco Ltd. is a Canadian mining producer of zinc and lead. This investment forms part of a $260 million programme of modernization relating to lead smelting operations in Trail, B.C. Funding for this share purchase is provided by capital paid into the Bank by the Government of Canada.

A twenty year agreement between the Government of Canada and Cominco Ltd. provides for a sharing in the risks of the project. The redemption of the Bank's investment and payment of dividends thereon are tied to the success of the project as determined by a profitability index which is related to the performance of lead and silver prices over the life of the agreement.

This investment is carried at cost and any dividends will be recorded when received.

FEDERAL BUSINESS DEVELOPMENT BANK—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

6. Notes held by Canada

All notes held by Canada, amounting to $51 million, at rates of 10% and 10⅛%, mature in fiscal 1988.

7. Notes payable, other than to Canada

Maturities by fiscal year were as follows:

Rate %	1988	1989	1990	1991	1992	1993-97	Total
	(in thousands of dollars)						
7			50,000				50,000
8⅝-9¾	55,000		157,600	128,968	105,000	174,975	621,543
10-11	78,000	53,000	69,875	3,000	3,000	9,000	215,875
12½-13⅝	109,600						109,600
14-14⅜	30,000	105,700					135,700
	272,600	158,700	277,475	131,968	108,000	183,975	1,132,718

The above includes notes payable of U.S. $100 million and Yen 16.4 billion.

8. Capital paid in by Canada

	1987	1986
	(in thousands of dollars)	
Capital, beginning of year	456,600	456,600
Cash paid in	28,000	
Capital, end of year	484,600	456,600

9. Contingent liabilities and commitments

The Bank is contingently liable as guarantor of loans aggregating $7,486,651.

The undisbursed amount as at March 31, 1987, on loans and venture capital investments authorized aggregated $212,135,000 (1986—$185,712,000).

10. Lease commitments

Future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

	(in thousands of dollars)
1988	5,584
1989	4,412
1990	3,666
1991	3,177
1992	3,431
Thereafter	14,188
	34,458

11. Pension plan

The Bank has a pension plan for its employees which is contributory and trusteed. Related costs, net of employees' contributions, are charged to earnings as paid. Based on an independent actuarial valuation, the plan was fully funded as at December 31, 1985.

12. Statutory limitations on operations

The Minister of Finance may, with the approval of the Governor in Council, authorize capital payments to the Bank not in excess of an aggregate amount determined by the application of Section 28 of the Federal Business Development Bank Act. Under current ministerial interpretation of the provisions of this Section, the Bank is presently authorized to receive capital payments to the extent that total capital paid in by Canada does not exceed $554 million. The total of direct and contingent liabilities of the Bank is limited to a maximum of 12 times the amounts of its capital and deficit (or up to 15 times with the approval of the Governor in Council) and may not exceed $3.2 billion.

13. Financial services

The statement of operations for Financial Services is comprised of the results of the Loans Division and the Venture Capital Division which are segregated below. Within the capital of the Bank as at March 31, 1986 and 1987, was an amount of $35.6 million provided by the Government of Canada to fund the venture capital investment portfolio.

	1987			1986		
	Loans	Venture Capital	Total	Loans	Venture Capital	Total
	(in thousands of dollars)					
Interest and investment income	230,806	8,072	238,878	210,139	8,054	218,193
Interest expense	148,162		148,162	138,702		138,702
Net interest and investment income	82,644	8,072	90,716	71,437	8,054	79,491
Provision for losses	29,608	63	29,671	21,539	2,502	24,041
Net interest and investment income after provision for losses	53,036	8,009	61,045	49,898	5,552	55,450
Non-interest expenses	51,657	2,660	54,317	48,442	2,179	50,621
Net income	1,379	5,349	6,728	1,456	3,373	4,829

14. Comparative financial data

Certain amounts pertaining to the fiscal year ended March 31, 1986, have been reclassified to conform with the presentation adopted for the fiscal year ended March 31, 1987.

SUMMARY PAGE

FRESHWATER FISH MARKETING CORPORATION

MANDATE

To regulate inter-provincial and export trade in freshwater fish.

BACKGROUND

The corporation's Act gives it a monopoly over inter-provincial and export trade in freshwater fish originating in the Northwest Territories, the three prairie provinces and parts of northern Ontario. The objectives of the corporation are (a) to market fish in an orderly manner; (b) to increase returns to fishermen; and (c) to promote international markets for, and increase inter-provincial and export trade in, fish. The Act also requires the corporation to conduct its operations on a self-sustaining financial basis without appropriations.

CORPORATION DATA

HEAD OFFICE	1199 Plessis Road Winnipeg, Manitoba R2C 3L4
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas E. Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
YEAR AND MEANS OF INCORPORATION	1969; by the *Freshwater Fish Marketing Act* (R.S.C. 1970, F-13)
CHIEF EXECUTIVE OFFICER	J.T. Dunn
CHAIRMAN	John McFarlane
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends April 30.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	18.9	25.5	25.0	19.5
Obligations to the private sector	2.4	1.9	1.9	1.3
Obligations to Canada	0.9	14.7	13.6	9.8
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary	(13.8)	2.2	3.5	(8.3)

FRESHWATER FISH MARKETING CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF FISHERIES AND OCEANS

I have examined the balance sheet of the Freshwater Fish Marketing Corporation as at April 30, 1987 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at April 30, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Freshwater Fish Marketing Act and the by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 13, 1987

BALANCE SHEET AS AT APRIL 30, 1987

ASSETS	1987	1986
	$	$
Current		
Cash		1,403,010
Accounts receivable		
Trade	4,818,391	5,785,304
Contributions (Note 3)	79,319	62,871
Other	911,265	701,413
Inventory		
Finished fish products	5,441,418	10,052,400
Packaging material and parts	996,559	822,272
Prepaid expenses	50,313	25,063
	12,297,265	18,852,333
Property, plant and equipment (Note 4)	6,652,677	6,610,896
	18,949,942	25,463,229

LIABILITIES	1987	1986
	$	$
Current		
Bank indebtedness	159,189	
Accounts payable	2,002,912	2,133,752
Accrued interest payable	1,992	483,755
Loans from Canada (Note 5)	900,000	14,652,589
Provision for final payments to fishermen	13,659,913	6,331,518
	16,724,006	23,601,614
EQUITY		
Retained earnings	2,225,936	1,861,615
	18,949,942	25,463,229

Approved by the Board:

R. E. ENGLAND
Director

D. M. GAUVIN
Director

FRESHWATER FISH MARKETING CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED APRIL 30, 1987

	1987	1986
	$	$
Sales		
Domestic	7,575,999	7,599,310
Export	51,071,240	41,070,407
	58,647,239	48,669,717
Expenses		
Cost of sales	41,204,509	37,812,656
Interest (Note 6)	826,142	1,449,848
Salaries and employee benefits	933,920	1,013,033
Depreciation and amortization	938,705	900,487
Bad debts	59,858	38,979
Other	659,871	846,638
	44,623,005	42,061,641
Income before provision for final payments to fishermen	14,024,234	6,608,076
Provision for final payments to fishermen	13,659,913	6,331,518
Net income for the year	364,321	276,558
Retained earnings at beginning of the year	1,861,615	1,585,057
Retained earnings at end of the year	2,225,936	1,861,615

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED APRIL 30, 1987

	1987	1986
	$	$
Cash provided by (used for)		
Operating Activities		
Income before provision for final payments to fishermen	14,024,234	6,608,076
Add (deduct):		
Items not affecting working capital		
Depreciation and amortization	938,705	900,487
Gain on sale of fixed assets		(60,428)
Net changes in non-cash working capital balances relating to operations	4,516,267	827,957
Cash provided by operations	19,479,206	8,276,092
Investing Activities		
Additions to property, plant and equipment	(1,174,146)	(999,438)
Proceeds on sale of property, plant and equipment	70,339	201,794
Cash applied to investing activities	(1,103,807)	(797,644)
Financing Activities		
Repayment of capital loans	(2,652,589)	(857,616)
Contributions for plant and equipment	109,106	95,014
Cash applied to financing activities	(2,543,483)	(762,602)
Final payments to fishermen	(6,294,115)	(7,271,750)
Increase (decrease) in cash during the year	9,537,801	(555,904)
Cash and cash equivalents, beginning of year	(10,596,990)	(10,041,086)
Cash and cash equivalents, end of year	(1,059,189)	(10,596,990)
Cash and cash equivalents are composed of		
Cash		1,403,010
Bank indebtedness	(159,189)	
Working capital loans from Canada	(900,000)	(12,000,000)
	(1,059,189)	(10,596,990)

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1987

1. Objectives and operations

The Corporation was established by the Freshwater Fish Marketing Act in 1969, as a corporation without share capital, for the purpose of marketing and trading in fish, fish products and fish by-products in and out of Canada. The Corporation is an agent Crown corporation named in Schedule C, Part I of the Financial Administration Act and is required to conduct its operations on a self-sustaining basis. Total loans outstanding from Canada and from banks may not exceed $30 million.

The Corporation has the exclusive right to market the products of the commercial fishery in the provinces participating in the program in inter-provincial and export trade. Participation of the provinces of Manitoba, Saskatchewan, Alberta and Ontario and the Northwest Territories was established by agreement with the Government of Canada.

2. Significant accounting policies

Inventories

Finished fish products are valued at the lower of cost and net realizable value. Packaging material and parts are valued at the lower of cost and replacement cost.

Depreciation and amortization

Depreciation is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	—Lake stations	Straight-line	10%
	—Plant	Straight-line	2 ½%
Equipment	—Machinery and office equipment	Declining balance	10-25%
	—Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Packer vessel		Straight-line	6 ⅔%

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Lease terms vary in length up to 20 years.

Payments to fishermen

The Corporation purchases fish at initial prices established by the Board of Directors and the cost of such purchases is included in the cost of sales. A guide used in the determination of the initial price is 80% of the projected total payments to fishermen (initial plus final), based upon forecasts prepared by the Corporation. Final payments, if any, to fishermen are determined by the Board after the end of the year, based on the results of operations for the year. The final payments are made in respect of products purchased during the year and therefore are charged to operations of the current year.

Foreign currency translation

Accounts receivable and payable denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate. Transactions in foreign currency during the year are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in interest expense.

FRESHWATER FISH MARKETING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1987—*Concluded*

3. Contributions receivable

	1987	1986
	$	$
Government of Canada		
Department of Regional Industrial Expansion	78,834	57,458
National Research Council	485	
Canada Employment and Immigration Commission		5,413
	79,319	62,871

Total contributions from the Government of Canada towards the cost of property, plant and equipment, market research development and job creation programs earned by the Corporation during the year were $256,775 (1986—$235,241).

4. Property, plant and equipment

	1987			1986
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Land	214,428		214,428	216,428
Buildings	5,386,223	2,214,460	3,171,763	3,234,165
Equipment	6,573,904	4,377,677	2,196,227	2,243,921
Fresh fish delivery tubs	1,692,084	1,040,550	651,534	606,152
Packer vessel	444,492	363,840	80,652	40,498
Leasehold improvements	420,904	364,375	56,529	68,801
Construction in progress	281,544		281,544	200,931
	15,013,579	8,360,902	6,652,677	6,610,896

5. Loans from Canada

These loans are secured by promissory notes and are made under Section 17 of the Act. At the end of the year the outstanding amounts were as follows:

	1987		1986	
	Interest rate	Amount	Interest rate	Amount
	%	$	%	$
Working capital loans	7.02	400,000	9.125	8,000,000
	8.134	500,000	9.375	2,000,000
			9.500	2,000,000
		900,000		12,000,000
Capital loans			10.125	53,359
			10.875	1,191,122
			14.000	408,108
			15.375	450,000
			15.625	550,000
				2,652,589

Working capital loans are repayable on demand and capital loans are repaid in amounts at least equal to the sum of the annual provision for depreciation and amortization on property, plant and equipment and proceeds derived from disposals thereof.

6. Interest expense

	1987	1986
	$	$
Interest on loans from Canada		
Working capital	725,192	1,211,481
Capital	29,488	360,351
	754,680	1,571,832
Losses (gains) on foreign exchange	187,949	(50,657)
Interest income (net)	(116,487)	(71,327)
	826,142	1,449,848

7. Income taxes

The Corporation is eligible to deduct for tax purposes a portion of its eligible capital cost allowance, and accordingly has no taxable income for the year. At April 30, 1987, the excess of undepreciated capital cost over net book value of property, plant and equipment amounted to $5,121,889 (1986—$5,505,387) which can be used to reduce future years' taxable income.

8. Remuneration to foreign agents

During the year, the Corporation paid an aggregate amount of $1,147,614 (1986—$836,234) to the following foreign sales agents: Frohman International, Juhl Brokerage Incorporation, Bill Bush & Associates, R.M. Sloan Co., Mile Hi Country Sales Co., Sahakian, Salm & Gordon, Benolken Brokerage Company, International Pacific Seafoods, Inc.,—U.S.; I. LeGrand H. Malo et Cie—France; Lejos Oy—Finland; AB.P. Jorgensen—Sweden; Rud Kanzow Gmbh & Co.—Germany.

9. Comparative figures

Certain figures for 1986 presented for comparison purposes have been reclassified to conform to the 1987 presentation.

SUMMARY PAGE

GREAT LAKES PILOTAGE AUTHORITY, LTD.

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service in designated Canadian waters in the Great Lakes area and in and around Ontario, and in designated waters in Manitoba, and in the St. Lawrence River, south of the St. Lambert Lock in Quebec.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	132 Second Street East P.O. Box 95 Cornwall, Ontario K6H 5R9
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52), incorporated under the *Canada Corporations Act* in May 1972 as a subsidiary of The St. Lawrence Seaway Authority.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Richard G. Armstrong
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983
At the end of the year				
Total Assets	5.2	2.0	4.3	3.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(1.0)	(5.2)	(2.2)	(1.9)
Cash from Canada for the year				
— budgetary	nil	3.4	0.3	0.2
— non-budgetary	nil	nil	nil	nil

GREAT LAKES PILOTAGE AUTHORITY, LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Great Lakes Pilotage Authority, Ltd. as at December 31, 1986 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations, and the by-laws of the Authority.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 30, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash and short-term deposits	3,195,752	322,314
Accounts receivable	1,936,068	1,651,705
	5,131,820	1,974,019
Fixed, at cost		
Buildings	63,642	63,642
Furniture and equipment	94,418	73,663
	158,060	137,305
Less: accumulated depreciation	122,462	113,037
	35,598	24,268
	5,167,418	1,998,287

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	2,710,085	3,229,844
Accrued employee termination benefits	35,477	648,638
	2,745,562	3,878,482
Long-term		
Accrued employee termination benefits	3,462,137	3,294,364
	6,207,699	7,172,846
SHAREHOLDER'S DEFICIENCY		
Capital stock		
Authorized—Unlimited		
Issued and fully paid—15 shares	1,500	1,500
Contributed capital	82,074	82,074
Deficit	(1,123,855)	(5,258,133)
	(1,040,281)	(5,174,559)
	5,167,418	1,998,287

Approved by the Board:

R. G. ARMSTRONG
Director

G. ST. MARSEILLE
Director

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenues		
Pilotage charges	11,082,134	8,275,829
Despatching and pilot boat income	198,350	207,976
Interest and other income	103,522	99,211
	11,384,006	8,583,016
Expenses		
Pilots' salaries and benefits	7,865,224	8,574,418
Staff salaries and benefits	1,008,555	1,141,667
Transportation and travel	724,116	657,489
Pilot boats	494,474	488,062
Employee termination benefits	310,089	627,514
Communications	57,072	74,333
Purchased despatching services	41,385	33,776
Rentals	40,166	34,571
Professional and special services	33,363	73,706
Utilities, materials and supplies	26,043	36,267
Repairs and maintenance	16,277	15,868
Depreciation	9,687	12,752
Bad debts (recoveries)	(16,223)	25,559
	10,610,228	11,795,982
Profit (loss) for the year	773,778	(3,212,966)

STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Balance, beginning of the year	5,258,133	2,308,231
Parliamentary appropriation (Note 3)	(3,360,500)	(263,064)
(Profit) loss for the year	(773,778)	3,212,966
Balance, end of the year	1,123,855	5,258,133

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Financing activities		
Parliamentary appropriation	3,360,500	263,064
Operating activities		
Cash provided from (used in) operations		
Profit (loss) for the year	773,778	(3,212,966)
Items not requiring cash		
Employee termination benefits	310,089	627,514
Depreciation	9,687	12,752
	1,093,554	(2,572,700)
Increase (decrease) in accounts payable and accrued liabilities	(519,759)	133,569
Increase in accounts receivable	(284,363)	(276,548)
Decrease in accrued employee termination benefits	(755,477)	(139,162)
	(466,045)	(2,854,841)
Investing activities		
Additions to fixed assets	(21,017)	(9,905)
Increase (decrease) in cash	2,873,438	(2,601,682)
Cash and short-term deposits, beginning of the year	322,314	2,923,996
Cash and short-term deposits, end of the year	3,195,752	322,314

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1986

1. Authority and objectives

The Great Lakes Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act, incorporated as a limited company on May 17, 1972, and is continued under the Canada Business Corporations Act. Pursuant to the Financial Administration Act, the Authority is deemed to be a parent Crown corporation listed in Schedule C Part I thereto. The majority of shares issued by the Authority are held by The St. Lawrence Seaway Authority, also a parent Crown corporation. The balance is held by the Authority's Chairman and six Directors appointed by the Governor in Council.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that the pilotage tariffs shall be fair, reasonable and sufficient and together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Parliamentary appropriations

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, cash operating losses are recovered from parliamentary appropriations. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

Parliamentary appropriations to finance capital expenditures are recorded as contributed capital.

Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the employees.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

3. Parliamentary appropriation

The parliamentary appropriation of $3,360,500 (1985—$263,064), reflected in the statement of deficit appeared in Supplementary Estimates "C" and represents funding of the previous year's cash operating loss.

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

4. Pension plan

Under provisions of the Pilotage Act, pilots who choose to become employees of the Authority are entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who have elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. The estimated unfunded past service pension contribution with respect to these employees was approximately $293,000 as of December 31, 1986 (1985 — $352,000) and will be funded over the remaining years of service of the pilots, or the terms of purchase, whichever is the lesser.

In 1986, the pension expense was $541,158 (1985 — $593,534) including $48,028 (1985 — $61,066) for past service contributions.

5. Commitments

The Authority has entered into a long-term lease for the rental of office space. The minimum annual rental payments which will be paid over the life of the lease are as follows:

	$
1987	33,820
1988	35,500
1989	2,970
	72,290

In addition, the Authority has requested tenders for its pilot boat services for the next two years. The estimated commitment with respect to these contracts is approximately $300,000 a year.

SUMMARY PAGE

HALIFAX PORT CORPORATION

MANDATE

Administration, management and control of the Halifax harbour and all works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Halifax Port Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total cargo handled by the port in 1986 amounted to 14.1 million tonnes including 2.3 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	P.O. Box 336 Ocean Terminal Halifax, Nova Scotia B3J 2P6
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	David F. Bellefontaine
CHAIRMAN	Raymond V. Beck
AUDITOR	Doane Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	7 months to Dec. 31, 1984
At the end of the year			
Total Assets	60.6	60.2	58.3
Obligations to the private sector	nil	nil	nil
Obligations to Canada*	30.0	25.6	25.6
Equity of Canada	23.2	23.9	22.2
Cash from Canada in the period			
— budgetary**	nil	(negl.)	0.6
— non-budgetary	4.1	nil	nil

* Excludes $5.0 million in accrued interest owed to Canada.

** Takes no account of special contributions to Canada in 1986 of $1.9 million.

HALIFAX PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1986, and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

Halifax, Canada
February 6, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	52,148	228,147
Investments (Note 3)	3,999,445	3,597,121
Accounts receivable	2,590,519	1,753,353
Materials and supplies	92,842	84,491
	6,734,954	5,663,112
Investments (Note 3)	33,195	33,090
Amounts receivable		350,782
Fixed (Note 4)	53,839,280	54,172,543
	60,607,429	60,219,527

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	837,109	4,468,785
Grants in lieu of municipal taxes	32,702	163,809
Deferred revenues	858,106	523,308
Current portion of long-term debt	276,080	
	2,003,997	5,155,902
Accrued employee benefits	682,648	652,043
Loans from Canada (Note 5)	34,680,853	30,556,933
	37,367,498	36,364,878
EQUITY		
Contributed capital	72,136,346	72,136,346
Contribution to Canada (Note 6)	(1,920,000)	
Deficit	(46,976,415)	(48,281,697)
	23,239,931	23,854,649
	60,607,429	60,219,527

On behalf of the Board:

RAYMOND V. BECK
Chairman

DAVID F. BELLEFONTAINE
General Manager and Chief Executive Officer

HALIFAX PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenue from operations	11,037,012	9,779,179
Operating and administrative expenses	6,788,356	6,290,314
Depreciation	2,002,115	1,519,654
Grants in lieu of municipal taxes	668,352	818,640
Loss on grain elevator operations (Note 7)		75,069
	9,458,823	8,703,677
Income from operations	1,578,189	1,075,502
Investment income	361,937	663,275
Interest expense	(476,582)	(37,989)
Loss on disposal of fixed assets	(407,262)	
	(521,907)	625,286
Net income before extraordinary item	1,056,282	1,700,788
Extraordinary item		
Gain on sale of land	249,000	
Net income	1,305,282	1,700,788
Deficit, beginning of year	(48,281,697)	(49,982,485)
Deficit, end of year	(46,976,415)	(48,281,697)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Operating activities		
Net income before extraordinary item	1,056,282	1,700,788
Depreciation	2,002,115	1,519,654
Other	437,762	(51,772)
Decrease (increase) in operating components of working capital	(3,997,423)	1,101,367
Cash provided by (applied to) operating activities	(501,264)	4,270,037
Financing activities		
Capital grants		(10,263)
Loans from Canada	4,123,920	2,650,000
Loans from Canada currently payable		(2,650,000)
Cash provided by (applied to) financing activities	4,123,920	(10,263)
Investing activities		
Proceeds from sale of land	249,000	
Additions to fixed assets	(2,080,510)	(12,288,251)
Other	355,179	(68,377)
Cash applied to investing activities	(1,476,331)	(12,356,628)
Contribution to Canada	(1,920,000)	
Increase (decrease) in cash and short-term investments	226,325	(8,096,854)
Cash and short-term investments, beginning of the year	3,825,268	11,922,122
Cash and short-term investments, end of year	4,051,593	3,825,268

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1986

1. In accordance with the Canada Ports Corporation Act, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

   In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of Halifax to the Halifax Port Corporation.

2. Significant accounting policies

   (a) Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   (b) Fixed assets

   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   (c) Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   (d) Insurance

   Canada Ports Corporation assumes substantially all risks against fire and general perils, as well as worker compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

   (e) Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   (f) Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

HALIFAX PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

3. Investments

	1986		1985	
	Amortized cost	Face value	Amortized cost	Face value
	$	$	$	$
Short-term	3,999,445	4,045,400	3,597,121	3,618,500
	Amortized cost	Market value	Amortized cost	Market value
Long-term	33,195	33,242	33,090	33,242

4. Fixed assets

	1986				1985
	Depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		23,324,979		23,324,979	18,024,654
Dredging	2.5-6.7	2,596,947	2,201,275	395,672	422,230
Berthing structures	2.5-10	32,234,879	16,883,596	15,351,283	7,853,789
Buildings	2.5-10	17,218,138	10,702,336	6,515,802	7,227,753
Utilities	3.3-10	4,409,404	1,659,267	2,750,137	1,402,979
Roads and surfaces	2.5-10	6,434,209	3,203,685	3,230,524	2,698,939
Machinery and equipment	5-100	9,230,913	7,389,937	1,840,976	1,554,323
Office furniture and equipment	20	790,302	489,053	301,249	351,707
Projects under construction		128,658		128,658	14,636,169
		96,368,429	42,529,149	53,839,280	54,172,543

5. Loans from Canada

	1986	1985
	$	$
Non-interest bearing loan with indefinite due date	25,555,762	25,555,762
Accrued interest on loans not due and payable	5,001,171	5,001,171
	30,556,933	30,556,933
10% loan maturing on December 31, 1996 repayable in blended annual principal and interest payments of $716,080	4,400,000	
Less current portion repayable within one year	276,080	
	4,123,920	
	34,680,853	30,556,933

The loans from Canada are unsecured.

6. Contribution to Canada

This amount was paid pursuant to a demand from the Government of Canada.

7. Comparative Figures

Certain of the 1985 comparative figures have been restated to separately disclose as follows the grain elevator operations:

	$
Revenue from operations	1,981,725
Operating and administrative expenses	1,933,839
Grants in lieu of municipal taxes	122,955
	2,056,794
Loss on operations	(75,069)

SUMMARY PAGE

HARBOURFRONT CORPORATION

MANDATE

a) To develop, manage and operate the waterfront in accordance with the development framework.

b) To initiate, conduct or sponsor cultural, recreational, scientific and educational programs which, in its opinion are of advantage to the public.

BACKGROUND

The Harbourfront site was delineated by the federal government in 1972 through the assembly of lands it owned plus other lands it expropriated. Extensive decayed properties were removed. With the efforts of all levels of government and an interim board, a long-term development plan was established and the mandate for Harbourfront Corporation was put in place in 1978. Since 1976, active Harbourfront programs of cultural, recreational and educational activities have made the site an attractive, busy public place. In addition to its spending on facilities for public use, the corporation has furthered private sector development on the site by leasing some land and selling air rights. With its cash flow from development, Harbourfront is now close to financial self-sufficiency in its operation.

CORPORATION DATA

HEAD OFFICE	Suite 500 410 Queen's Quay West Toronto, Ontario M5V 1A2
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1936; as Terminal Warehouses Ltd, under the Ontario *Companies Act*; July 14, 1978, as Harbourfront Corporation, under the *Business Corporations Act* of Ontario; continued under the *Canada Business Corporations Act*, December 21, 1984.
CHIEF EXECUTIVE OFFICER (ACTING)	Frank Mills
CHAIRMAN	Consiglio Di Nino
AUDITOR	Green & Cadsby

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85 (restated)	1983-84
At the end of the period				
Total Assets	37.1	36.3	27.9	9.8
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1.4	0.3	0.2	0.5
Cash from Canada in the period				
— budgetary	1.0	6.1	20.9	14.0
— non-budgetary	nil	nil	nil	nil

HARBOURFRONT CORPORATION

AUDITOR'S REPORT

TO THE HONOURABLE STEWART McINNES, P.C., M.P.
MINISTER OF PUBLIC WORKS

We have examined the balance sheet of Harbourfront Corporation as at March 31, 1987 and the statements of income, retained equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, we have examined the transactions that came to our notice in the course of the above mentioned examination of the financial statements of Harbourfront Corporation for the year ended March 31, 1987, to determine whether they were in accordance with Part XII of the Financial Administration Act, the regulations, the charter and by-laws of the corporation and the seven year management agreement dated June 13, 1980 as subsequently amended. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Green and Cadsby
Chartered Accountants

Toronto, Canada
June 11, 1987

BALANCE SHEET MARCH 31, 1987

ASSETS	1987	1986
	$	$
Cash and term deposits (Note 2)	1,618,135	318,352
Government of Canada—Receivable (Note 2)	357,022	344,733
Due from related companies (Note 2)	1,881,695	162,488
Receivables and other assets (Note 4)	3,482,824	3,028,184
Due under development agreements (Note 6)	22,388,972	23,451,292
Deposit with Receiver General (Notes 2 and 5)	6,972,765	8,773,245
Fixed assets (Note 7)	423,536	230,717
	37,124,949	36,309,011

LIABILITIES	1987	1986
	$	$
Accounts payable and accrued liabilities	3,329,372	2,206,904
Unearned revenue from development agreements (Note 8)	30,154,518	31,034,821
Deferred development contributions (Note 9)	1,442,583	1,799,414
Other deferred revenues	781,619	932,361
	35,708,092	35,973,500
SHAREHOLDER'S EQUITY		
Capital		
Authorized		
500,000—Common shares		
Issued		
215,500—Common shares	1	1
Retained Equity	1,416,856	335,510
	1,416,857	335,511
	37,124,949	36,309,011

See accompanying notes

On behalf of the Board:

CON di NINO
Director

BRAM APPEL
Director

HARBOURFRONT CORPORATION—*Continued*

STATEMENT OF RETAINED EQUITY FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Retained earnings (deficit) at beginning of year	(854,206)	243,193
Net income for the year	1,081,346	92,317
Transfer to restricted surplus	(8,317,503)	(1,189,716)
Transfer from restricted surplus	9,800,000	
Retained earnings (deficit) at end of year	1,709,637	(854,206)
Restricted surplus at beginning of year	1,189,716	
Transfer from retained earnings	8,317,503	1,189,716
Appropriation of restricted surplus	(9,800,000)	
Restricted surplus (deficit) at end of year (Note 11)	(292,781)	1,189,716
Retained equity at beginning of year	335,510	243,193
Retained equity at end of year	1,416,856	335,510

See accompanying notes

INCOME STATEMENT FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operations		
Income		
Government of Canada—Contribution (Note 2)		205,700
Rental from revenue producing property	1,709,631	1,563,040
Parking, concessions and other income	3,657,219	3,834,201
Events admissions	1,215,423	980,239
Events sponsorships	1,520,629	1,257,543
Interest earned under Harbourfront Capital Account (Note 2)	532,977	557,062
Interest and fees earned under development agreements	2,245,532	1,582,515
	10,881,411	9,980,300
Expenses		
Personnel (Note 10)	4,967,311	4,443,437
Property and operations	1,608,402	1,442,207
Events production and marketing	3,560,932	2,738,055
General and administration	2,673,538	2,387,702
Depreciation	147,746	66,298
	12,957,929	11,077,699
Loss from operations	2,076,518	1,097,399
Development		
Income		
Contributions applied (Note 9)	3,278,831	11,995,955
Interest	14,182	88,838
	3,293,013	12,084,793
Income from the sale of air rights	8,276,220	1,168,000
Income from capitalized leases	41,283	21,716
	11,610,516	13,274,509
Expenses		
Site improvements	8,452,652	11,135,816
Land acquisition		948,977
	8,452,652	12,084,793
Income from development	3,157,864	1,189,716
Net income for the year	1,081,346	92,317

See accompanying notes

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating and Development Activities		
Funds provided from		
Net income for the year	1,081,346	92,317
Expenses not requiring cash outlay		
Depreciation expense	147,746	66,298
	1,229,092	158,615
Funds increased by		
Deferred revenue from development agreements		15,140,698
Due under development agreements	1,062,320	
Receivable from Government of Canada		6,514,000
Deferred revenue		55,186
Deposit with Receiver General	1,800,480	
Accounts payable and accrued liabilities	1,122,467	
	3,985,267	21,709,884
Funds reduced by		
Due under development agreements		(13,853,414)
Deferred revenue from development agreements	(880,303)	
Deferred development contributions	(356,831)	
Receivable from Government of Canada	(12,289)	
Deferred revenue	(150,742)	
Deposit with Receiver General		(4,931,875)
Development contributions		(4,785,104)
Accounts payable and accrued liabilities		(2,056,169)
Receivables and other assets	(454,640)	(1,538,984)
Due from related companies	(1,719,207)	
	(3,574,012)	(27,165,546)
Funds increased (reduced) by operating and development activities	1,640,347	(5,297,047)
Investing activities		
Land acquired from the Crown		(1)
Operating fixed assets	(340,564)	(297,013)
	(340,564)	(297,014)
Increase (Decrease) in Funds	1,299,783	(5,594,061)
Cash and term deposits at beginning of year	318,352	5,912,413
Cash and term deposits at end of year	1,618,135	318,352

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1987

1. General

The Company, incorporated under the Laws of Ontario, was continued under Section 181 of the Canada Business Corporations Act by Certificate of Continuance dated December 21, 1984.

The Company is a Crown corporation listed under Part I of Schedule C of the Financial Administration Act. Share capital is held by Her Majesty the Queen in Right of Canada as represented by the Minister of Public Works.

The Company is exempt from Corporation Income Taxes under Section 149(1)(d) of the Income Tax Act.

The Company owns shares in the following subsidiary companies:

630370 Ontario Limited
15972 Canada Limited
Peter Street Basin Properties Inc.
Harbourpoint Developments (Harbourfront) Ltd.

HARBOURFRONT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

2. Related parties transactions

Pursuant to a seven year agreement dated June 13, 1980 as subsequently amended, Her Majesty the Queen in Right of Canada, has granted the Company the right to operate, manage, maintain and develop certain premises situated on the Toronto harbourfront for commercial and residential purposes, including the leasing of space and to initiate, conduct or sponsor on the premises cultural, recreational and educational programmes for the benefit of the public. Subsequent to March 31, 1987, this contract has been extended to March 31, 1988. This extension is subject to the understanding that revisions to the Agreement may be required prior to the new expiry date as a result of present and impending policy reviews related to the future mandate.

Funds received on account of development rights and capitalized land leases are remitted to the Receiver General for deposit in the Harbourfront Capital Account, an interest bearing trust account within the Consolidated Revenue Fund of the Government of Canada.

The Corporation may, with the approval of the Governor in Council, upon recommendation of the Treasury Board, withdraw amounts of principal remitted to the Harbourfront Capital Account for purposes consistent with the development and financial objectives of the Corporation.

The following summarizes related party transactions for the year.

Government of Canada contributions:

	1987	1986
	$	$
Operating contribution		205,700
Development contribution	954,000	5,886,300
	954,000	6,092,000
Interest received and receivable from the Harbourfront Capital Account	532,977	557,062
Government of Canada receivable	357,022	344,733

At March 31, 1987, $500,000 received under a development agreement and included in cash and term deposits, remained to be remitted to the Harbourfront Capital Account.

The Company is related to two cultural corporations, Art Gallery at Harbourfront and School by the Water by virtue of common management. In both cases Harbourfront has majority representation on the Boards of Directors. The Company also acts as financial agents for these companies.

	Art Gallery at Harbourfront	School by the Water	1987	1986
	$	$	$	$
Operating contribution	194,600	81,300	275,900	243,400
Amounts receivable at March 31	1,751,561	130,134	1,881,695	162,488

The major portion of the $1,751,561 amount receivable from the Art Gallery at Harbourfront as at March 31, 1987 is related to the construction of the Gallery's new Power Plant building. The Gallery will repay Harbourfront, with interest tied to interest rates earned by the Harbourfront Capital Account, as pledges and donations are received in future years as follows:

	$
1988	710,842
1989	263,795
1990	245,331
1991	178,585
1992	105,352
	1,503,905

3. Accounting policies

Land

The land being developed by Harbourfront is owned by Her Majesty the Queen in Right of Canada except for certain designated portions that have been conveyed to the Company for nominal consideration to facilitate certain redevelopment agreements. Land, the acquisitions of which are funded by contributions from the Government of Canada, is owned by the Government of Canada, and accordingly, is recorded as expenditures. Land transferred to the Company from the Government of Canada is transferred and recorded at $1.

Buildings and site improvements

The Company records the costs of maintaining and improving the site and buildings thereon as expenditures in the year incurred, except for additions to land conveyed to and retained by the Company which are capitalized.

Operating fixed assets

Certain operating fixed assets were originally transferred from the Government of Canada to the Company by Order in Council for $1. Additions to March 31, 1985 were recorded as expenditures and equipment capital leases were treated as operating leases.

Operating assets, consisting of machinery, equipment and office furniture, are recorded at cost and depreciated over their useful lives. Assets reflected in the financial statements include additions, including acquisitions through capital leases, if any, after March 31, 1986.

Recognition of revenues

Development rights and leases

Upon closing of development agreements, the Company records all amounts received and receivable which are reasonably determinable as unearned revenue. Sales of air rights are recognized and net income is recorded upon transfer of title of said air rights and registration of the condominium development. Capitalized land leases are recognized on a straight line basis over the lease term.

Interest

Interest earned by the Corporation from the monies held in the Harbourfront Capital Account and interest earned on balances due under development agreements, are part of the operating revenues of the Corporation.

Government contributions

Contributions from the Government of Canada are recognized at the time they are authorized as payable to the Company.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Retained equity

Retained equity consists of retained earnings and restricted surplus (deficit). Net income recognized under development agreements and capitalized land leases, is transferred to the restricted surplus account to reflect the restriction set out in Note 2. Transfers out of the restricted surplus account to retained earnings are

HARBOURFRONT CORPORATION—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

limited to such amounts as are approved by the Governor in Council, upon recommendation of the Treasury Board.

4. Receivables and other assets

	1987	1986
	$	$
Accounts receivable	653,091	316,144
Interest and construction allowances under development agreements	1,717,594	1,277,016
Interest, other	99,578	86,063
Development fees	450,000	500,000
Participating income receivable	37,616	124,355
Programming grants receivable	65,700	95,050
Prepaid expenses and deposits	459,245	629,556
	3,482,824	3,028,184

5. Deposit with Receiver General

As of March 31, 1987, the Corporation had received and paid $7,999,520 into the Harbourfront Capital Account. Balances due upon the registration of various condominium developments amount to $22,388,972 and will be remitted to the Harbourfront Capital Account on receipt.

	1987	1986
	$	$
Balance at beginning of year	8,773,245	3,841,370
Deposits during year	7,999,520	4,931,875
Withdrawals during year	(9,800,000)	
Balance at end of year	6,972,765	8,773,245

6. Due under development agreements

	Due within one year	Due after one year	Total 1987	Total 1986
	$	$	$	$
Amounts due, interest bearing	8,683,253	900,000	9,583,253	4,833,253
Amounts due, non-interest bearing	8,341,094	4,464,625	12,805,719	18,618,039
	17,024,347	5,364,625	22,388,972	23,451,292

7. Fixed assets

Fixed assets consist of:

	Cost	Accumulated depreciation	Net 1987	Net 1986
	$	$	$	$
Land	1		1	1
Operating fixed assets transferred from Crown	1		1	1
Equipment	637,578	214,044	423,534	230,715
	637,580	214,044	423,536	230,717

8. Unearned revenue from development agreements

	1987	1986
	$	$
Balance at beginning of year	31,034,821	15,894,123
Amounts received	500,000	2,477,000
Amounts receivable	6,937,200	13,853,414
	38,472,021	32,224,537
Earned in year	8,317,503	1,189,716
Balance at end of year	30,154,518	31,034,821

9. Deferred development contributions

	1987	1986
	$	$
Deferred contributions at beginning of year	1,799,414	6,472,518
Contributions during year		
Government of Canada (Note 2)	954,000	5,886,300
Allowances under development agreements	1,168,000	1,436,551
Sponsorships	800,000	
	4,721,414	13,795,369
Contributions applied in year	3,278,831	11,995,955
Deferred contributions at end of year	1,442,583	1,799,414

The deferred contributions at beginning of 1986 were represented by contributions from the Government of Canada.

10. Personnel

Personnel costs were incurred in each operational area as follows:

	1987	1986
	$	$
Property and operations	1,028,750	983,089
Events production	2,315,914	2,125,532
General and administration	1,212,362	955,783
Planning and development	410,285	379,033
	4,967,311	4,443,437

11. Restricted deficit

The restricted deficit arises as a result of Harbourfront Capital Account funds advanced to provide working capital for the Corporation, in excess of the recognition of income from development agreements, as summarized below.

Recognized as income

	$
1986	1,189,716
1987	8,317,503
	9,507,219
Advances in excess of recognized income	292,781
Amounts withdrawn per Note 5	9,800,000

HARBOURFRONT CORPORATION—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

The following items maintain a consistent relationship:

	1987	1986
	$	$
Funds received and deposited with Receiver General	16,772,765	8,773,245
Approved withdrawals	(9,800,000)	
Deposit with Receiver General (Notes 2 and 5)	6,972,765	8,773,245
Deposit received under development agreement	500,000	
Amounts due under development agreements (Note 6)	22,388,972	23,451,292
	29,861,737	32,224,537
Unearned revenue from development agreements (Note 8)	30,154,518	31,034,821
Restricted surplus (deficit)	(292,781)	1,189,716
	29,861,737	32,224,537

12. Comparative figures

Certain other 1986 comparative figures have been reclassified in order to conform with the financial statement presentation adopted for 1987.

13. Cumulative contributions by the Government of Canada

The following historical cost information in millions of dollars has been supplied by the Department of Public Works:

	Fiscal 1972 to 1980	Fiscal 1981 to 1987	Total
	$	$	$
Land acquisition	54.4		54.4
Operating and capital expenditures	21.5		21.5
Operating contributions		8.5	8.5
Development and land acquisition contributions		51.3	51.3
	75.9	59.8	135.7

Funds contributed subsequent to fiscal 1980 represent expenditures pursuant to the Management Agreement referred to in Note 2.

14. Commitments

The contractual principal repayments under equipment leases entered into prior to April 1, 1985 are as follows:

Fiscal year	$
1988	102,798
1989	38,089
1990	25,891

15. Uncertainties and Contingencies

(a) A policy review of Harbourfront Corporation is in progress. To avoid actions that will prejudice the Corporation's ability to properly consider and act upon any recommendations, the Minister of Public Works on May 5, 1987 instructed the Corporation that all capital projects be put in abeyance. Projects which have received the required building permits from the City of Toronto and are now under construction are proceeding. All other projects requiring building permits are in abeyance.

Due to the nature of the review and the uncertainty of its results, these financial statements give no effect to the financial implications of the projects under suspension.

The ramifications of the suspension of capital projects are unknown at the present time.

(b) The Company is the defendant in certain litigation matters. The Company has denied liability in these actions and in some instances has served counterclaims. In the opinion of management, based in part upon discussion with counsel, these actions will be resolved satisfactorily and will not have a material adverse effect on the Company's financial position.

SUMMARY PAGE

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

MANDATE

To initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development.

BACKGROUND

ICOD was established by statute as a parent Crown corporation in February 1985. It complements the work of CIDA, the International Development Research Centre, and other development assistance organizations. It is seen as an important new dimension in Canada's efforts to assist less fortunate nations through its long experience and expertise in marine resource management.

CORPORATION DATA

HEAD OFFICE	5670 Spring Garden Road 9th Floor Halifax, Nova Scotia B3J 1H6
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1985; *The International Centre For Ocean Development Act*, (S.C. 1984-85 C. 6).
CHIEF EXECUTIVE OFFICER	G.C. Vernon
CHAIRMAN	Elisabeth Mann Borgese
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**
At the end of the period			
Total Assets	0.1	0.1	negl
Obligations to the private sector	nil	nil	nil
Obligations to Canada	nil	nil	nil
Equity of Canada	negl	negl	nil
Cash from Canada in the period			
— budgetary	4.0	1.1	0.8
— non-budgetary	nil	nil	nil

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

AUDITOR'S REPORT

TO THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the International Centre for Ocean Development as at March 31, 1987 and the statements of operations, deficit, contributed surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Further, in my opinion, the transactions of the Centre that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the International Centre for Ocean Development Act and regulations and the by-laws of the Centre.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash	70,119	74,669
Accounts receivable	74,014	5,070
	144,133	79,739

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued liabilities	100,190	45,408
EQUITY		
Contributed surplus (Note 3)	54,227	52,790
Deficit	(10,284)	(18,459)
	43,943	34,331
	144,133	79,739

Approved by the Board:

J. VANDERMEULEN
Director

G. VERNON
Director

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

	1987	1986
	$	$
Program activities		
Technical assistance		
Technical assistance projects (Schedule A)	947,885	77,000
Program —Development and related expenses	87,894	4,506
—Administration costs (Schedule E)	223,678	66,877
	1,259,457	148,383
Information		
Information—Projects (Schedule B)	246,611	27,508
—Services expenses	72,404	2,750
Program administration costs (Schedule E)	127,768	1,588
	446,783	31,846
Training		
Course development projects (Schedule C)	548,091	5,241
Scholarship projects (Schedule D)	514,583	276,769
Program—Development and related expenses	18,564	6,764
—Administration costs (Schedule E)	181,611	89,821
	1,262,849	378,595
Total program activities expenditures	2,969,089	558,824
Administrative expenditures (Schedule F)	1,079,037	660,069
Deduct: revenues		
Recoveries from project co-sponsor	(34,117)	
Interest income	(22,184)	(75,434)
	(56,301)	(75,434)
Cost of operations for the year	3,991,825	1,143,459

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

	1987	1986
	$	$
Deficit, at beginning of the year	18,459	
Parliamentary appropriations	4,000,000	1,125,000
	3,981,541	1,125,000
Deduct: cost of operations for the year	3,991,825	1,143,459
Deficit, at end of the year	10,284	18,459

STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

	1987	1986
	$	$
Contributed surplus, at beginning of the year	52,790	
Assets contributed by predecessor non-government organization—International Centre for Ocean Development	1,437	52,790
Contributed surplus, at end of the year	54,227	52,790

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

	1987	1986
	$	$
Financing activities		
Parliamentary appropriations	4,000,000	3,300,000
Refund of parliamentary appropriations		(2,175,000)
	4,000,000	1,125,000
Cash balance contributed by predecessor non-government organization—International Centre for Ocean Development	1,437	
	4,001,437	1,125,000
Operating activities		
Cash used for operations		
Cost of operations for the year	(3,991,825)	(1,143,459)
Adjustment for non-cash items		
Net fixed asset contributions		52,790
	(3,991,825)	(1,090,669)
Increase (decrease) in working capital items other than cash	(14,162)	40,338
	(4,005,987)	(1,050,331)
Net funds provided (used)	(4,550)	74,669
Cash, at beginning of the year	74,669	
Cash, at end of the year	70,119	74,669

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and objectives

The International Centre for Ocean Development was estab-lished by the International Centre for Ocean Development Act in 1985 as a Crown corporation without share capital, named in Schedule C, Part I to the Financial Administration Act. The Centre is dependant on the Government of Canada for operating appropriations.

The objectives of the Centre are to initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development by:

(a) initiating and supporting programs in developing countries for the improved management and utilization of ocean resources, particularly as a source of food;

(b) supporting the development of indigenous expertise and institutions in developing countries in order to increase the capacity of developing countries in integrated ocean use management;

(c) enlisting the expertise of people and institutions in Canada, developing countries and elsewhere;

(d) developing and sponsoring the collection and dissemination of information relating to ocean resource development;

(e) developing and sponsoring training programs, technical assistance and advisory services relating to ocean resource development; and

(f) supporting research relating to ocean resource development.

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

2. Significant accounting policies

The financial statements reflect the following policies:

(a) Capital expenditures

Purchases of equipment, office furniture, and costs of leasehold improvements are expensed in the year of acquisition.

(b) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Deficit for the year to which they apply.

(c) Project expenditures

The Centre enters into agreements with third parties to undertake projects. Project expenditures are charged to operations when disbursed and as they become due under the terms of the contractual agreement.

(d) Pension plan

Employees of the Centre are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

3. Contributed surplus

Contributed surplus represents the net book value of assets contributed to the Centre by the predecessor, non-government organization, International Centre for Ocean Development. In accordance with the Centre's accounting policy, net fixed assets contributions of $52,790 were charged to expense during the preceding period.

4. Income taxes

The Centre is exempt from income taxes.

5. Operating leases

The Centre has entered into various operating lease arrangements for office premises and equipment. The future minimum lease payments are as follows:

	1987	1986
Year ending March 31	$	$
1987		142,300
1988	190,000	143,500
1989	193,300	159,500
1990	193,800	170,000
1991	188,900	
1992	188,900	
	954,900	615,300

6. Contractual commitments

The Centre is committed to project expenditures during the next five years subject to compliance by recipients with the terms of their agreements.

	1987	1986
Year ending March 31	$	$
1987		678,500
1988	3,485,000	519,000
1989	1,622,700	450,000
1990	385,500	151,000
1991	310,000	128,000
1992	295,900	
	6,099,100	1,926,500

TECHNICAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986) SCHEDULE A

		1987	1986
		$	$
850011	FFA Surveillance	234,597	30,000
850010	OECS Fisheries Desk	182,642	47,000
850035	Fisherman's Training—Pictou	63,858	
860041	CCOP/SOPAC—Regional Marine Geology	60,996	
860034	Fisherman's Assistance—Dominican	60,219	
850013	Fisheries Research Needs and Assessment	55,065	
860086	Research Institute Evaluation	44,000	
860072	Economic Analysis of Costa Rica	26,324	
860056	Master Fisherman's Programme	26,041	
	Projects under $25,000	194,143	
Total technical assistance projects expenditures		947,885	77,000

INFORMATION PROJECTS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986) SCHEDULE B

		1987	1986
		$	$
860023	World Fisheries Map	69,804	
860037	Marine Information Sri Lanka	50,000	
860077	Regional Compendium—Indian Ocean	34,970	
850021	Ocean Training Directory	28,900	8,500
	Projects under $25,000	62,937	19,008
Total information projects expenditures		246,611	27,508

COURSE DEVELOPMENT PROJECTS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986) SCHEDULE C

		1987	1986
		$	$
850014	Marine Affairs Diploma Course	175,037	
860070	Marine Affairs Diploma Materials	85,325	
850059	SEAPOL Ocean Boundary Making	82,200	
850022	Stand Alone Materials	56,514	
860078	Maritime Boundary Delimitation Course	32,000	
860028	Non-Fuel Minerals Course—Halifax	30,872	
850015	WMU Marine Affairs Course	26,180	
	Projects under $25,000	59,963	5,241
Total course development projects expenditures		548,091	5,241

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Concluded*

SCHOLARSHIP PROJECTS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

SCHEDULE D

		1987	1986
		$	$
850017	ICOD Scholarship Programme	238,850	240,000
860062	Tropical Fisheries Diploma	58,965	
860081	IOI Scholarships (Indian Ocean)	49,933	
860025	Regional University Scholarships	43,605	
860018	IOI Scholarships (Halifax Course)	37,174	
850019	WMU Scholarships	34,117	36,769
860097	CIDA/WMU Africa Scholarships	34,117	
	Projects under $25,000	17,822	
Total scholarship projects expenditures		514,583	276,769

TOTAL PROGRAM ADMINISTRATION COSTS
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

SCHEDULE E

	Salaries	Travel	Total 1987	Total 1986
	$	$	$	$
Program activities				
Technical Assistance	130,057	93,621	223,678	66,877
Information	93,473	34,295	127,768	1,588
Training	148,444	33,167	181,611	89,821
Total program Administration costs	371,974	161,083	533,057	158,286

ADMINISTRATIVE EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 1987
(with comparative figures for the period
February 27, 1985 to March 31, 1986)

SCHEDULE F

	1987	1986
	$	$
Employee and Contract Staff Salary and Benefits	468,404	171,312
Accommodation Costs	142,136	72,506
Office Supplies and Services	107,259	43,992
Office Equipment and Leasehold Improvements	95,898	118,798
Recruitment and Relocation Costs	75,465	
Travel and Entertainment	72,408	59,883
Communications	48,575	30,314
Directors' Honoraria, Travel and Meetings	40,665	53,109
Professional Services	28,227	110,155
Total administrative expenditures	1,079,037	660,069

SUMMARY PAGE

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

MANDATE

To initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions.

BACKGROUND

IDRC was created to help resolve, through research carried out by Third World scientists, the problems of poverty in the developing countries. To this end, it has established the following main program areas: Agriculture, Food and Nutrition Sciences; Health Sciences; Information Sciences; Social Sciences; and, through collaborative research, the Earth Sciences and Technologies for Local Enterprises.

CORPORATION DATA

HEAD OFFICE	250 Albert Street Ottawa, Ontario K1G 3H9
STATUS	— not an agent of Her Majesty — exempt from provisions of Divisions 1 to IV of Part XII of the *Financial Administration Act*
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1970; by *The International Development Research Centre Act*, (R.S.C., 1970, 1st Supplement C-21)
CHIEF EXECUTIVE OFFICER	Ivan L. Head
CHAIRMAN	Janet M. Wardlaw
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85 (restated)	1983-84
At the end of the period				
Total Assets	14.3	16.7	20.3	21.7
Obligations to the private sector	nil	nil	0.3	0.4
Obligations to Canada	nil	4.0	nil	nil
Equity of Canada	2.6	1.1	10.9	7.9
Cash from Canada in the period				
— budgetary	96.0*	82.0*	81.0	67.4
— non-budgetary	nil	nil	nil	nil

* Net of $4.0 million repaid to Canada in each of these two years.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

AUDITOR'S REPORT

TO THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
AND THE
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the International Development Research Centre as at March 31, 1987 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 11, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash and short-term deposits (Note 3)	9,181,248	11,925,534
Accounts receivable	555,699	461,015
Prepaid expenses	700,665	745,523
	10,437,612	13,132,072
Recoverable deposits	444,754	455,909
Property and equipment (Note 4)	3,310,258	3,108,716
John Bene Endowment Fund (Note 5)	138,465	
	14,331,089	16,696,697

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued liabilities (Note 6)	7,974,540	8,446,521
Due to Government of Canada (Note 7)		4,000,000
Funds provided for contract research	691,597	450,027
Deferred revenue (Note 8)	224,092	241,110
	8,890,229	13,137,658
Long-term		
Accrued employee separation benefits	2,477,240	2,436,272
Deferred rent—Head Office (Note 9)	270,229	
	2,747,469	2,436,272
	11,637,698	15,573,930
John Bene Endowment Fund (Note 5)	138,465	
	11,776,163	15,573,930
EQUITY		
Equity of Canada	2,554,926	1,122,767
	14,331,089	16,696,697

Approved:

RAYMOND AUDET
Vice-President, Resources

IVAN L. HEAD
President

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Expenditure		
Development research		
Project grants	52,498,074	47,057,173
Centre projects	6,959,083	6,474,598
	59,457,157	53,531,771
Research-related activities		
Project development and support	4,893,498	3,794,838
Information dissemination	2,131,104	1,925,219
Development-research library	1,396,237	1,283,138
	8,420,839	7,003,195
Research operational support		
Technical support	12,876,019	12,012,502
Regional and liaison offices	5,394,586	4,946,549
Division management	4,541,789	4,223,966
	22,812,394	21,183,017
Contract research	924,410	1,053,126
Total research and support expenditure (Schedule 1)	91,614,800	82,771,109
General management expenditure (Schedule 2)	9,353,755	8,714,899
	100,968,555	91,486,008
Revenue		
Grant from Parliament of Canada	100,000,000	86,000,000
Investment and other income	977,911	1,880,968
Contract research	924,410	1,053,126
CIDA contribution (Note 8)	498,393	728,890
	102,400,714	89,662,984
Excess of revenue over expenditure (expenditure over revenue)	1,432,159	(1,823,024)

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at the beginning of the year	1,122,767	10,945,791
Reimbursement of equity to Government of Canada (Note 7)		(8,000,000)
Excess of revenue over expenditure (expenditure over revenue)	1,432,159	(1,823,024)
Balance at the end of the year	2,554,926	1,122,767

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Cash provided by (used for) operations		
Excess of revenue over expenditure (expenditure over revenue)	1,432,159	(1,823,024)
Items not affecting funds		
Depreciation and amortization	1,095,018	1,035,657
Provision for employee separation benefits	357,568	500,722
Loss (gain) on disposal of property and equipment	11,502	(4,042)
	2,896,247	(290,687)
Accounts receivable	(94,684)	(16,429)
Prepaid expenses	44,858	82,296
Recoverable deposits	11,155	(20,580)
Accounts payable and accrued liabilities	(471,981)	1,910,443
Deferred revenue	(17,018)	241,110
Payment of employee separation benefits	(316,600)	(264,234)
Contract research	241,570	181,927
Deferred rent	270,229	
	2,563,776	1,823,846
Financing activities		
Reduction of equity		(8,000,000)
Due to Government of Canada	(4,000,000)	4,000,000
Reduction of obligation under capital lease		(345,234)
	(4,000,000)	(4,345,234)
Investing activities		
Additions to property and equipment	(1,354,825)	(835,100)
Proceeds on disposal of property and equipment	46,763	45,380
	(1,308,062)	(789,720)
Decrease in funds	(2,744,286)	(3,311,108)
Cash and short-term deposits, beginning of year	11,925,534	15,236,642
Cash and short-term deposits, end of year	9,181,248	11,925,534

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1987

1. Authority and objective

The International Development Research Centre, a Corporation without share capital, was established in 1970 by the Parliament of Canada through the International Development Research Centre Act. The annual grant received from the Parliament of Canada is pursuant to External Affairs Votes 60 and 70 for the years ended March 31, 1987 and 1986 respectively.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the terms of the respective leases. The methods and rates used to provide for the depreciation and amortization of property and equipment are:

	Method	Rate (%)
Computer hardware	Straight-line	20
Leasehold improvements	Straight-line	9-50
Office furniture and equipment	Diminishing balance	20
Vehicles	Diminishing balance	30
Telephone system	Straight-line	20

Expenditure

Expenditure is recorded on an accrual basis except for contract research expenditure, which is charged to operations when disbursed.

Recognition of revenue

Revenue in respect of contract research and of the contribution from the Canadian International Development Agency (CIDA) is recognized at the time that the related project expenditure is incurred. Contract research and CIDA contribution funds received in excess of expenditure are included in current liabilities.

Pension costs

Employees of the Centre are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

Income taxes

The Centre is exempt from any liability for income taxes.

Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at year-end. Non monetary assets are translated at rates prevailing at the respective transaction dates. Foreign-currency transactions are translated into Canadian dollars by the use of an average exchange rate that closely approximates the rate in effect at the transaction date. Exchange gains and losses are included in operations for the current year.

3. Cash and short-term deposits

	1987	1986
	$	$
Cash (bank overdraft)	(2,062)	462,316
Short-term deposits		
Canadian chartered banks	6,904,367	3,065,992
Governments and governmental enterprises	1,288,643	1,279,354
Commercial enterprises	990,300	1,688,132
Trust and mortgage companies		5,429,740
	9,183,310	11,463,218
	9,181,248	11,925,534

4. Property and equipment

	1987			1986
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Computer hardware	2,695,035	1,171,571	1,523,464	1,204,720
Leasehold improvements	327,587	180,585	147,002	466,947
Office furniture and equipment	1,841,814	989,016	852,798	742,075
Vehicles	936,657	434,572	502,085	385,848
Telephone system	565,308	280,399	284,909	309,126
	6,366,401	3,056,143	3,310,258	3,108,716

Depreciation and amortization for the year ended March 31, 1987 amounted to $1,095,018 ($1,035,657 for 1986).

5. John Bene Endowment Fund

The estate of the late John Bene has established an endowment fund to be administered by the Centre, that provides a post-graduate fellowship in the field of social forestry.

	1987
	$
Initial amount	50,000
Other donations received	81,059
Amount invested in short-term deposits	131,059
Cash and accrued interest income	7,406
Balance at the end of the year	138,465

6. Accounts payable and accrued liabilities

	1987	1986
	$	$
Accrued liabilities—Projects	4,198,635	4,765,749
Accrued annual and other leave benefits	1,235,921	1,302,879
Other	2,539,984	2,377,893
	7,974,540	8,446,521

7. Due to Government of Canada

The Budget Papers tabled in the House of Commons by the Minister of Finance on May 23, 1985 provided for the recovery of $15,000,000 from the Centre in 1985-86. The Centre negotiated the remittance of $8,000,000: $4,000,000 in fiscal year 1985-86 and $4,000,000 in April 1986.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1987—*Concluded*

8. Contribution from the Canadian International Development Agency

On March 29, 1985, the Centre executed an agreement in respect of a contribution of up to $4,764,690 to be provided by CIDA for a development-research project.

	1987	1986
	$	$
Contribution received during the year	521,375	1,000,000
Project expenditure	498,393	728,890
Administration charges by the Centre	40,000	30,000
	538,393	758,890
Excess of funds received over expenditure and administration charge (expenditure and administration charge over funds received)	(17,018)	241,110
Funds available at the beginning of the year	241,110	
Funds available at the end of the year	224,092	241,110

9. Deferred rent—Head Office

The Centre signed a new lease for 10 years and 10 months starting in January 1987. The terms call for an annual rent of about $2,740,000 starting with a rent-free period of 13 months. This rent-free period is being amortized over the life of the lease. The amount of $270,229 reflects the deferred rent as at March 31, 1987.

10. Operating leases

The Centre has entered into various lease arrangements for office premises, equipment, and staff accommodation, in Canada and in various countries. The total annual payments under such lease arrangements will be:

Year ending March 31	$
1988	4,929,382
1989	4,162,882
1990	3,518,215
1991	3,487,803
1992	3,558,053
	19,656,335

11. Contractual commitments—Project grants and project development

The Centre is committed to make payments totalling up to $85,005,643 during the next 4 years subject to funds being provided by Parliament and subject to compliance by recipients with the terms of project agreements. The Centre has also submitted formal grant offers to prospective recipients totalling $24,918,569 and is awaiting acceptance of these offers.

The Centre is further committed to make payments of up to $3,337,617 during the next 3 years, subject to funds being provided by CIDA and subject to compliance by the recipient with the terms of the project agreement.

12. Contingencies

The Centre is a defendant in two actions for damages and costs allegedly sustained by the plaintiffs. Management and counsel are of the opinion that the Centre has defences against these claims and accordingly no provision has been made in the financial statements in respect of them. The claims are not significant to the operations of the Centre.

13. Comparative figures

The 1986 comparative figures have been reclassified to conform to the statement presentation adopted in 1987.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Concluded*

SCHEDULE OF RESEARCH AND SUPPORT EXPENDITURE FOR THE YEAR ENDED MARCH 31, 1987

SCHEDULE 1

	1987					1986
	Development research	Research related activities	Research operational support	Contract research	Total	Total
	$	$	$	$	$	$
Programs						
Agriculture, Food and Nutrition Sciences	20,746,162	618,517	4,421,442	391,660	26,177,781	23,401,904
Social Sciences	9,715,694	811,741	3,587,405	322,628	14,437,468	14,445,061
Information Sciences	8,150,814	558,948	2,545,517	94,828	11,350,107	9,613,195
Health Sciences	7,924,226	504,581	2,477,872	8,485	10,915,164	10,026,917
Fellowships and Awards	5,744,774	208,484	826,118		6,779,376	5,855,067
Cooperative Programs	4,479,874	710,964	1,258,320		6,449,158	5,459,872
Program-related activities						
Regional and liaison offices and Coordination unit		847,746	5,394,586		6,242,332	5,632,185
Information dissemination	467,406	2,131,104	1,643,801	9,500	4,251,811	4,005,802
Special Program Activities	2,227,477	352,953		97,309	2,677,739	2,244,707
Development-research library		1,396,237			1,396,237	1,283,138
External liaison and relations	730	279,564	657,333		937,627	803,261
	59,457,157	8,420,839	22,812,394	924,410	91,614,800	82,771,109

SCHEDULE OF GENERAL MANAGEMENT EXPENDITURE FOR THE YEAR ENDED MARCH 31, 1987

SCHEDULE 2

	1987	1986
	$	$
Salaries and benefits	6,065,602	6,067,589
Rent and accommodation	1,004,136	619,479
Office and sundry	638,654	500,317
Depreciation and amortization	535,439	389,500
Travel and relocation	488,402	457,798
Governors' meetings	238,885	277,872
Professional and special services	185,141	198,001
Telecommunications	164,208	159,676
Insurance	33,288	14,515
Interest		30,152
	9,353,755	8,714,899

SUMMARY PAGE

LAURENTIAN PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety an efficient pilotage service in the St. Lawrence River between Les Escoumins and the north end of the St. Lambert Lock, in the Saguenay River and in the Bay of Chaleur.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Suite 1402 1080 Beaver Hall Hill Montreal, Quebec H2Z 1S8
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Jacques Chouinard
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984**	**1983**
At the end of the year				
Total Assets	7.9	6.3	5.1	5.2
Obligations to the private sector	0.8	0.7	0.4	0.1
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.8	(0.3)	(0.1)	0.3
Cash from Canada for the year				
— budgetary	1.3	2.0	1.5	1.0
— non-budgetary	nil	nil	nil	nil

LAURENTIAN PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Laurentian Pilotage Authority as at December 31, 1986 and the statements of operations, contributed capital, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 13, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash	359,138	21,525
Accounts receivable	6,435,570	5,041,879
	6,794,708	5,063,404
Fixed (Note 3)		
Land, buildings, pilot boats and other facilities	2,187,785	2,179,000
Less: accumulated depreciation	1,132,370	966,553
	1,055,415	1,212,447
	7,850,123	6,275,851

LIABILITIES	1986	1985
	$	$
Current		
Bank loan	750,000	650,000
Accounts payable	5,735,300	5,278,134
	6,485,300	5,928,134
Provision for employee termination benefits	604,000	641,000
	7,089,300	6,569,134
EQUITY (DEFICIENCY) OF CANADA		
Contributed capital	971,621	914,293
Deficit	(210,798)	(1,207,576)
	760,823	(293,283)
	7,850,123	6,275,851

Approved by the Authority:

YVON MATTE
Vice-Chairman

M. B. MILNER
Member

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenues		
Pilotage charges	26,957,431	24,671,138
Interest and other revenues	72,122	78,006
Rewards for rescuing ships in distress—Net	9,986	89,438
	27,039,539	24,838,582
Expenses		
Pilots' fees, salaries and benefits	22,253,678	20,780,682
Operating costs of pilot boats	2,814,374	3,048,696
Staff salaries and benefits	1,693,947	1,693,963
Professional services and members' allowances	826,235	301,564
Rentals	236,651	228,181
Communications	147,042	139,916
Transportation and travel	137,336	110,991
Financing costs	74,306	45,815
Utilities, material and supplies	63,146	64,324
Maintenance	21,391	28,401
Bad debts	14,416	28,396
Other	170,961	114,908
	28,453,483	26,585,837
Net loss before unusual item	1,413,944	1,747,255
Unusual item—Incremental costs related to an investigation by the Canadian Transport Commission (Note 7)		331,126
Net loss for the year	1,413,944	2,078,381

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	914,293	650,175
Parliamentary appropriation to finance the previous year's acquisition of fixed assets	57,328	264,118
Balance at end of the year	971,621	914,293

STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Balance at beginning of the year	1,207,576	747,749
Net loss for the year	1,413,944	2,078,381
Parliamentary appropriations to finance operating deficits		
—Previous year	(1,398,722)	(1,106,554)
—Current year (Note 5)	(1,000,000)	(500,000)
Services provided without charge by a government department	(12,000)	(12,000)
Balance at end of the year	210,798	1,207,576

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Operating activities		
Net loss for the year	1,413,944	2,078,381
Non-cash items		
Depreciation	(182,169)	(173,659)
Services provided without charge by a government department	(12,000)	(12,000)
Decrease in the provision for employee termination benefits	37,000	6,000
	1,256,775	1,898,722
Increase in accounts receivable	1,393,691	1,316,470
Increase in accounts payable	(457,166)	(1,134,544)
	2,193,300	2,080,648
Investing activities		
Additions to fixed assets	25,137	57,328
Financing activities		
Parliamentary appropriations	(2,456,050)	(1,870,672)
Bank loan, net of cash		
Increase (decrease) for the year	(237,613)	267,304
Balance at beginning of the year	628,475	361,171
Balance at end of the year	390,862	628,475

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1986

1. Authority and activities

The Laurentian Pilotage Authority was established on February 1, 1972 under the Pilotage Act. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

The Authority is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

2. Significant accounting policies

Fixed assets

Fixed assets obtained from Canada when the Authority was established were recorded at the then assigned values. Fixed assets purchased subsequently by the Authority are recorded at cost.

Fixed assets are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets.

Contributed capital

The values assigned to the fixed assets obtained from Canada when the Authority was established and the net cost of fixed assets financed from parliamentary appropriations are recorded as contributed capital.

Parliamentary appropriations

Parliamentary appropriations received to finance the excess of expenditures over revenues are recorded in the year in which they are voted by Parliament, to contributed capital for that portion pertaining to the acquisition of fixed assets and to the deficit for that pertaining to operations. In this respect, operating expenditures include only those which require an outlay of funds.

Services provided without charge

Estimated amounts for services provided without charge by a government department are included in expenses with an offset to the deficit.

LAURENTIAN PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

Pension plan

Employees of the Authority participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total liability of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

Employee termination benefits

On termination of employment, employees of the Authority are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

3. Fixed assets

Details of fixed assets are as follows:

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	9,300		9,300	9,300
Buildings	23,622	23,622		261
Pilot boats	1,386,892	721,238	665,654	774,149
Furniture and fixtures	121,358	70,269	51,089	38,656
Communications equipment	178,832	117,405	61,427	82,035
Boarding facilities	216,689	117,670	99,019	114,256
Wharf improvements	169,033	50,710	118,323	126,775
Leasehold improvements	82,059	31,456	50,603	67,015
	2,187,785	1,132,370	1,055,415	1,212,447

Depreciation for the year is $182,169 ($173,659 in 1985).

The estimated useful lives for the principal categories of fixed assets for the purposes of calculating depreciation are as follows:

Pilot boats	10, 15 and 20 years
Furniture and fixtures	10 years
Communications equipment	10 years
Boarding facilities	10 and 20 years
Wharf improvements	20 years
Leasehold improvements	duration of the leases

4. Pension plan

The estimated unrecorded liability for employees' past services is $69,600 as at December 31, 1986 ($80,000 as at December 31, 1985).

5. Parliamentary appropriation

On November 18, 1986, the Treasury Board approved a temporary allotment of $1,400,000 from its Vote 5, Government Contingencies, prior to the release, in Supplementary Estimates "C" for 1986-87, of an appropriation to cover the Authority's cash deficit for the year 1986. An amount of $1,000,000 was received during the year.

6. Trust account

Agreements between representatives of the users of the pilotage service and the pilots' corporations were signed on December 26, 1985 in order to provide for supplementary interim remuneration to the pilots' corporations until the signing of new service contracts between the Authority and the pilots' corporations. Concurrently with the signing of those agreements, the Authority had agreed to administer, through a trust account, amounts to be received from users and subsequently distribute them to the pilots' corporations. The supplementary interim remuneration arrangements were terminated in November 1986 concurrently with the signing of new service contracts.

Although the amounts payable to the pilots' corporations under these agreements were fully paid before and after December 31, 1986, an amount of approximately $300,000 remains receivable from certain users of the pilotage service who challenge their obligation to pay the supplementary interim remuneration provided for in these agreements. The Authority has taken action before the Courts to exercise its rights.

7. Canadian Transport Commission investigation

In January 1985, the Authority published in the Canada Gazette a copy of each tariff of pilotage charges that it had proposed to prescribe pursuant to the Pilotage Act. Notices of objection were filed with the Canadian Transport Commission, which subsequently made such investigation as in its opinion was necessary or desirable in the public interest. The Commission made its recommendation to the Authority on April 4, 1986. The new tariff was applied effective September 26, 1986.

SUMMARY PAGE

MARINE ATLANTIC INC.

MANDATE

To acquire, establish, manage and operate a marine transportation service, a marine maintenance, repair and refit service, a marine construction business and any service or business related thereto.

BACKGROUND

The company provides marine ferry services to Atlantic Canada. As CN Marine Inc., it was a subsidiary of Canadian National Railway Company. Pursuant to the *Marine Atlantic Inc. Acquisition Authorization Act* (S.C. 1986, C. 36), which was proclaimed on June 27, 1986, the company's name was changed to Marine Atlantic Inc. and was added to Part I of Schedule C of the *Financial Administration Act*. At close of business on December 31, 1986, ownership was transferred to Her Majesty in right of Canada.

CORPORATION DATA

HEAD OFFICE	100 Cameron Street Moncton, New Brunswick E1C 5Y6
STATUS	—Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1979; by the *Canada Business Corporations Act*. Status and ownership changed as of December 31, 1986, pursuant to S.C. 1986, C. 36.
CHIEF EXECUTIVE OFFICER	R. J. Tingley
CHAIRMAN	J. D. Wilson
AUDITOR	Peat, Marwick, Mitchell & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984
At the end of the year			
Total Assets	339	361	364
Obligations to the private sector	nil	nil	negl
Obligations to Canada	nil	nil	nil
Equity of Canada	(6)	284	283
Cash from Canada in the year			
—budgetary	127	141	161
—non-budgetary	nil	nil	nil

MARINE ATLANTIC INC.

AUDITORS' REPORT

TO THE HONOURABLE J. CROSBIE
MINISTER OF TRANSPORT

We have examined the balance sheet of Marine Atlantic Inc. as at December 31, 1986 and the statements of income, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the charter and by-laws of the Corporation.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Moncton, Canada
February 27, 1987

BALANCE SHEET DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

ASSETS	1986	1985
Current assets		
Cash	7,534	82
Accounts receivable	5,017	4,468
Shipbuilding subsidies receivable		8,552
Due from Canadian National Railway Company	760	31,232
Inventory of fuel and supplies	5,688	9,004
Prepaid expenses	2,117	1,339
Total current assets	21,116	54,677
Long-term receivables (including shipbuilding subsidy of $1.5 million in 1985)	175	1,718
Fixed assets and deferred charges (Note 4)	318,128	294,615
	339,419	351,010

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	1986	1985
Current liabilities		
Accounts payable and accruals	19,642	21,365
Deferred government contract revenue (Note 2)	7,549	182
Total current liabilities	27,191	21,547
Deferred income taxes		43,187
Deferred credits		1,605
Provision for capital assistance (Note 3)	318,128	
Provision for personal injury		975
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock		
Common shares without par value		
Authorized—Unlimited number		
Issued and fully paid—517,061 shares	258,530	258,530
Retained earnings (deficit)	(264,430)	25,166
Total shareholders' equity (deficiency)	(5,900)	283,696
Commitments and contingencies (Notes 5 and 7)		
	339,419	351,010

See accompanying notes to financial statements.

On Behalf of the Board:

J. D. WILSON
Director

R. J. TINGLEY
Director

MARINE ATLANTIC INC.—*Continued*

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

	1986	1985
Commercial revenues	56,043	49,701
Operating expenses	179,754	180,764
Depreciation and amortization	15,874	11,865
	195,628	192,629
	139,585	142,928
Government contract revenue	122,966	143,447
Reduction in provision for capital assistance (Note 3)	15,874	
Interest and other income	1,744	2,873
	140,584	146,320
Income before income taxes	999	3,392
Income taxes (Note 8)		1,724
Net income for the year	999	1,668

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS (DEFICIT)
YEAR ENDED DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

	1986	1985
Retained earnings, beginning of year	25,166	24,044
Net income for the year	999	1,668
	26,165	25,712
Less: adjustment for capital assistance (Note 3)	290,595	
dividends paid		546
Retained earnings (deficit), end of year	(264,430)	25,166

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1986
(with comparative figures for 1985)
(in thousands of dollars)

	1986	1985
Operating activities		
Net income for the year	999	1,668
Add (deduct)		
Items not affecting working capital	(693)	13,750
Net changes in non-cash working capital balances relating to operations	1,791	(5,316)
Deferred government contract revenue (Note 2)	7,367	177
Cash provided by operations	9,464	10,279
Investing activities		
Additions to fixed assets and deferred charges	(43,081)	(13,817)
Net proceeds on disposal of fixed assets	693	22
Change in accounts payable—Fixed assets	(2,309)	1,086
Long-term receivables	43	63
Cash applied to investing activities	(44,654)	(12,646)
Financing activities		
Payments on long-term debt		(58)
Capital assistance	1,410	
Collections from CNR and shipbuilding subsidies	41,232	3,019
Cash provided by financing activities	42,642	2,961
Dividends paid		(546)
Increase in cash during the year	7,452	48
Cash, beginning of year	82	34
Cash, end of year	7,534	82

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986
(in thousands of dollars)

1. Nature of operations and authority

Bill C-88, the Marine Atlantic Inc. Acquisition Authorization Act was proclaimed in 1986 and transferred ownership of the Corporation from the Canadian National Railway Company ("CNR") to the Government of Canada. This Act changed the Corporation's name of CN Marine Inc. to Marine Atlantic Inc. In accordance with the Act, the Corporation's articles restrict the business that it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada. The agreements provide, among other things, for the Corporation to receive contract revenues from the Government of Canada to the extent that the estimated cost of providing ferry, coastal, terminal and water services is not recovered from estimated commercial revenues. In addition, and subject to parliamentary appropriations, amounts are received to finance the acquisition of fixed assets on a proven cash needs basis. The allocation of funds received in respect of contract revenue and the acquisition of fixed assets are subject to ministerial directive. As a result, the Corporation is economically dependent on the Government of Canada for the funds it receives through these arrangements.

2. Significant accounting policies

Inventory of fuel and supplies

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

Fixed assets

Fixed assets are carried at the cost to acquire them less accumulated depreciation. Due to a change in funding arrangements with the Corporation's shareholder, and as explained further in Note 3, a provision for those capital costs not considered recoverable from future revenue sources has been made and has been charged to retained earnings.

Shipbuilding subsidies available on fixed assets acquired through long-term construction contracts are approved on the percentage-of-completion basis and applied to reduce the cost of assets under construction.

Depreciation

Depreciation is calculated at rates sufficient to write off fixed assets over their estimated useful lives generally on a straight line basis. Assets acquired from the CNR in 1979 are depreciated based on the original cost to the Ministry of Transport of $197.7 million. The rates for significant classes of assets are as follows:

Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%

Deferred charges

Deferred charges are accounted for at cost less accumulated amortization. They are being amortized to income on a straight line basis over periods not exceeding 60 months.

Capital assistance

Amounts received from the Government of Canada to finance the acquisition of fixed assets are recorded as deferred capital assistance in the year in which they are reasonably assured of being received, and are amortized to income on the same basis and over the same periods as the related fixed assets are depreciated.

MARINE ATLANTIC INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

Government contract revenue

Revenues received under contract to provide ferry service to Atlantic Canada are based on operating budgets approved by the Government of Canada for each year and are included in income in the year received to fund operating expenses in excess of commercial revenues. Deferred contract revenue at December 31, 1986 represents January 1987 government contract revenue received by the Company on December 31, 1986.

Accruals for vacation pay and vessel refits are reduced to the extent that the amounts are reasonably assured of being paid and recovered from future contract revenues to be received from the Government of Canada.

Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the year end. Other assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Gains and losses arising on translation are included in net income.

Employee compensation

Pension plans

During the year the Company assumed responsibility for retirement plans covering substantially all of its employees. In prior years the plans had been administered by CNR and the Corporation had made payments to the plan on the basis of a formula determined by CNR's actuaries.

In 1986 the costs of benefits for current services of employees have been funded and charged to income. Based on current actuarial information prepared in connection with the transfer of responsibility for the plans, management is of the opinion that it will be assuming an unfunded liability. Consequently an additional payment of $3 million has been made toward a reduction of that liability and has been charged to income.

Personal injury costs

Certain retired employees are currently provided with specified pensions resulting from injury. The Corporation recognizes the benefit payouts as an expense in the year paid.

Vessel spare parts

The Company maintains spare parts for vessels in service. The acquisition of spare parts is charged to operations in the period the purchase is made.

3. Provision for capital assistance

In accordance with changes in the contractual funding agreements and the change in the ownership of the Company, future depreciation and amortization on those fixed assets and deferred charges acquired prior to January 1, 1987, and which had substantially been financed through the issue of capital stock, are no longer recoverable under contracts with the Government of Canada. Management considers it unlikely that the Corporation will generate sufficient commercial revenue to recover these costs. Accordingly, management has provided for $290.6 million (after net related deferred income taxes of $44.6 million) as an adjustment to retained earnings. This provision for capital assistance will be reduced as the related assets are depreciated, amortized or upon their disposition.

4. Fixed assets and deferred charges

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Vessels	285,868	49,517	236,351	104,063
Terminal properties	81,316	15,928	65,388	49,514
Equipment	11,007	7,766	3,241	3,760
Leasehold improvements	256	77	179	375
	378,447	73,288	305,159	157,712
Assets under construction	7,279		7,279	135,280
	385,726	73,288	312,438	292,992
Deferred charges	6,101	411	5,690	1,623
	391,827	73,699	318,128	294,615

5. Commitments and contingencies

(a) The Corporation has been directed by the Government of Canada to contract with a shipbuilder for a new vessel. The directive authorizes an expenditure of $130 million, subject to an economic price adjustment, of which the Corporation was required and has paid $5 million which is included in assets under construction. The balance will become payable by the Corporation upon delivery of the vessel.

The total amount required to complete contracted fixed assets under construction at December 31, 1986 is estimated to be $134.7 million (1985—$31.6 million).

(b) The Company has received a claim of approximately $14 million plus interest from the builder of one of the Company's vessels. The Company has filed a claim of approximately $14 million plus interest against the builder. An arbitration of this matter was completed in October, 1986 and the Company is awaiting the decision of the arbitrators. The final outcome of this matter cannot be determined at this time. The Company is also in receipt of claims which have not yet reached litigation. The Company's estimate of total financial exposure for these items is $2.6 million; however any final determination is presently unknown.

6. Acquisitions

The Company has agreed in principle to acquire, by purchase, all of the issued and outstanding shares of the capital stock of Coastal Transport Limited, whose principal business is transportation. Such acquisition was approved by an Order In Council issued in December, 1985.

In addition, the Government of Canada has authorized the Company to enter into negotiations with CNR to acquire the Newfoundland Dockyard Company.

MARINE ATLANTIC INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

7. Operating leases

The company makes use of property which is available through operating leases. The minimum lease payments are as follows:

	(in thousands of dollars)
1987	814
1988	795
1989	358
1990	343
1991	343
1992	343
Total minimum lease payments	2,996

8. Income taxes

The company has been listed under Part I of Schedule C to the Financial Administration Act and has not been prescribed as a Federal Crown Corporation under the Canadian Income Tax Act.

9. Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SUMMARY PAGE

MINGAN ASSOCIATES, LTD

MANDATE

To purchase land for eventual disposition.

BACKGROUND

Ownership of the corporation was purchased for Canada in 1983 to obtain the land and fishing rights it owns. Those assets are to become Indian reserve property and, as a first step, they have been transferred to the Crown in right of Canada. The further steps towards reserve status are underway now and the corporation is in position to be dissolved.

CORPORATION DATA

HEAD OFFICE	10 Wellington Street 18th Floor Les Terrasses de la Chaudière Hull, Quebec K1A 0H4
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable William H. McKnight, P.C., M.P.
DEPARTMENT	Indian Affairs and Northern Development
YEAR AND MEANS OF INCORPORATION	1983; by Order in Council P.C. 1983-4029; a corporation under Part 1A of the Quebec *Companies Act*.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Vacant
FINANCIAL SUMMARY	This is not an operating company. Total assets have only nominal value.

MINGAN ASSOCIATES, LTD.

THE CORPORATION HAS NEGLIGIBLE ASSETS AND WAS INACTIVE
DURING THE REPORT PERIOD

SUMMARY PAGE

MONTREAL PORT CORPORATION

MANDATE

Administration, management and control of the Montreal harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Montreal Port Corporation was established on July 1, 1983, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The Port of Montreal is the largest on the east coast of Canada and handles more diversified traffic than any of the other ports previously administered by the Canada Ports Corporation. The port handled 21.6 million tonnes of cargo in 1986 including 4.0 million tonnes of grain and 4.9 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	Edifice du Port de Montréal Aile No. 1 Cité du Havre Montreal, Quebec H3C 3R5
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Dominic J. Taddeo
CHAIRMAN	Ronald Corey
AUDITOR	Samson Bélair

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984**	**6 months ending Dec. 31, 1983**
At the end of the period				
Total Assets	212.2	253.7	237.2	213.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada*	140.7	141.1	141.4	141.9
Equity of Canada	(47.6)	(2.3)	(22.1)	(48.9)
Cash from Canada in the period				
— budgetary**	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

* Excludes $98.2 million in accrued interest owed to Canada.

** Takes no account of special contributions to Canada in 1986 of $55 million and a further $4.1 million in dividends declared in 1986.

MONTRÉAL PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the statements of income, contributions to Canada, deficit and changes in financial position of the Montréal Port Corporation for the fiscal year ended December 31, 1986 and its balance sheet at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of operations and the changes in the financial position of the Corporation for the year ended December 31, 1986 and its financial position at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements were, in all material respects, in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act, the Letters Patent and by-laws of the Corporation.

Samson Bélair
Chartered Accountants

Montréal, Canada
February 9, 1987

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash	567	298
Investments (Note 3)	27,280	79,594
Accounts receivable	13,206	10,003
Materials and supplies	832	774
	41,885	90,669
Long-term		
Investments (Note 3)	39,218	39,041
Receivables	459	552
	39,677	39,593
Fixed assets (Note 4)	130,682	123,433
	212,244	253,695

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities (Note 5)	8,590	9,022
Dividends payable	4,136	
Grants in lieu of municipal taxes	3,315	2,851
	16,041	11,873
Long-term		
Accrued employee benefits	5,283	5,207
Loans from Canada (Note 6)	238,508	238,869
	243,791	244,076
EQUITY OF CANADA		
Contributed capital	19,243	19,243
Contributions to Canada (Note 10)	(59,119)	
Deficit	(7,712)	(21,497)
	(47,588)	(2,254)
	212,244	253,695

On behalf of the Board:

RONALD COREY
Chairman

DOMINIC J. TADDEO
General Manager and Chief Executive Officer

MONTRÉAL PORT CORPORATION—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Revenue from operations	56,659	54,729
Operating and administrative expenses	39,690	37,345
Depreciation	7,254	6,711
Grants in lieu of municipal taxes	3,873	3,914
	50,817	47,970
Net income from operations	5,842	6,759
Investment income	8,446	12,006
Interest expense	(503)	(523)
	7,943	11,483
Net income before unusual item	13,785	18,242
Adjustment of grants in lieu of municipal taxes		1,612
Net income for the year	13,785	19,854

STATEMENT OF CONTRIBUTIONS TO CANADA
FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Special contributions for the year	54,983	
Dividends on net income for the year	4,136	
Balance at end	59,119	

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Balance at beginning	21,497	41,351
Net income for the year	13,785	19,854
Balance at end	7,712	21,497

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Cash provided by (used for) the following activities		
Operations		
Net income for the year	13,785	19,854
Items not affecting cash		
Depreciation	7,254	6,711
Others	871	(63)
	21,910	26,502
Changes in non-cash operating working capital balances	(3,175)	(3,495)
	18,735	23,007
Financing		
Repayment of loans from Canada	(339)	(319)
Contributions to Canada	(54,983)	
	(55,322)	(319)
Investments		
Acquisition of long-term investments	(177)	(57)
Receipt of long-term receivables	93	26
Acquisition of fixed assets	(15,374)	(10,525)
	(15,458)	(10,556)
Cash*		
Increase (decrease) during the year	(52,045)	12,132
Balance at beginning	79,892	67,760
Balance at end	27,847	79,892

*Cash comprises cash and current investments.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986

1. Status

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the Canada Ports Corporation Act on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour as are administered by the Board, shall be deemed to have been transferred to the local port corporation, in this case the Montréal Port Corporation.

2. Significant accounting policies

(a) Fixed assets and depreciation

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation on fixed assets is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(b) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

MONTRÉAL PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

(c) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(d) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with Corporation policy.

3. Investments

Funds are invested in Government of Canada direct securities and guaranteed by the Government of Canada which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. As at December 31, 1986, the market value of the short-term investments is equivalent to their amortized cost, and market value of long-term investments is $46,246,000 ($43,881,239 in 1985).

4. Fixed assets

	1986				1985
	Depreciation rates	Cost	Accumulated depreciation	Net value	Net value
	%	(in thousands of dollars)			
Land		19,058		19,058	18,060
Dredging	2.5	15,633	11,810	3,823	3,787
Berthing structures	2.5	58,521	36,559	21,962	22,887
Buildings	2.5-10	60,504	27,677	32,827	33,418
Utilities	3.3-10	13,698	6,172	7,526	6,781
Roads and surfaces	2.5-10	30,681	10,306	20,375	18,694
Machinery and equipment	5-20	41,739	28,212	13,527	14,625
Office furniture and equipment	20	1,405	838	567	248
		241,239	121,574	119,665	118,500
Projects under construction		11,017		11,017	4,933
		252,256	121,574	130,682	123,433

5. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are amounts for deferred revenues of $652,589 ($792,840 in 1985) and for the current portion of long-term liabilities of $360,576 ($339,365 in 1985).

6. Loans from Canada

	1986	1985
	(in thousands of dollars)	
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	7,712	8,051
Less: current portion	361	339
	7,351	7,712
Non-interest bearing loans with indefinite due date	132,995	132,995
Accrued interest on loans not due nor payable	98,162	98,162
	238,508	238,869

Principal repayment requirements over the next five years amount to:

	$
1987	360,576
1988	383,112
1989	407,056
1990	432,497
1991	459,528

7. Contingencies

Claims aggregating approximately $5,948,000 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry legal matters in dispute have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

8. Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $4,008,000.

9. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally from grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

10. Contributions to Canada

Canada has requested cash contributions from various Crown Corporations. As part of this cash recovery exercise, the Ports Canada network which consists of the Canada Ports Corporation and the six local port corporations, was requested to contribute $133,000,000.

The Montréal Port Corporation's portion amounts to $54,983,000 and it has been charged to the "Contributions to Canada" item.

In accordance with a decision by the Government of Canada, the Corporation is required to issue a dividend, in respect of the 1986 financial year, set at 30% of net income before extraordinary items and payable before March 31, 1987. This dividend amounted to $4,136,000 in 1986 and has been charged to the "Contributions to Canada" item.

SUMMARY PAGE

NATIONAL ARTS CENTRE CORPORATION

MANDATE

To operate and maintain the National Arts Centre; to develop the performing arts in the National Capital Region; and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

BACKGROUND

In 1969, the corporation was given the lease of the National Arts Centre complex for twenty years without charge. The corporation's revenues meet about 50 per cent of its cash requirements; payments from Canada cover the remainder. The corporation is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	1 Confederation Square Ottawa, Ontario K1P 5W1
STATUS	— exempt from the provisions of divisions I to IV of Part XII of the *Financial Administration Act* — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Flora MacDonald, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1966; by *The National Arts Centre Act*, (R.S.C. 1970, N-2).
CHIEF EXECUTIVE OFFICER (ACTING)	Ron Blackburn
CHAIRMAN	Pierre Boutin
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends August 31.

	1985-86	**1984-85**	**1983-84**	**1982-83 (restated)**
At the end of the period				
Total Assets	6.7	14.7	14.1	15.6
Obligations to the private sector*	2.4	2.8	2.0	1.5
Obligations to Canada	nil	nil	0.1	0.2
Equity of Canada	1.1	negl.	(0.4)	1.0
Cash from Canada in the period				
— budgetary	14.8	15.3	15.5	15.3
— non-budgetary	nil	nil	nil	nil

* These are advance ticket sales.

NATIONAL ARTS CENTRE CORPORATION

AUDITOR'S REPORT

TO THE CHAIRMAN OF THE BOARD OF TRUSTEES
NATIONAL ARTS CENTRE CORPORATION

I have examined the balance sheet of the National Arts Centre Corporation as at August 31, 1986 and the statements of revenue and expenses, surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at August 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
October 27, 1986

BALANCE SHEET AS AT AUGUST 31, 1986

ASSETS	1986	1985
	$	$
Current		
Short-term investments	876,889	8,057,641
Accounts receivable (Note 3)	1,400,293	1,223,105
Inventories (Note 4)	467,144	366,999
Programmes in progress	511,335	952,794
Prepaid expenses (Note 5)	342,067	697,000
	3,597,728	11,297,539
Fixed assets (Note 6)	3,097,229	3,378,779
	6,694,957	14,676,318

LIABILITIES	1986	1985
	$	$
Current		
Bank overdraft	16,697	136,501
Accounts payable and accrued liabilities (Note 7)	2,243,881	2,209,110
Deferred revenue (Note 8)	2,407,824	2,814,871
Deferred parliamentary appropriations		
Operating (Note 9)		8,501,500
Extraordinary building repairs (Note 10)	461,086	611,463
	5,129,488	14,273,445
Provision for employee termination benefits	469,278	394,495
	5,598,766	14,667,940
EQUITY OF CANADA		
Surplus	1,096,191	8,378
	6,694,957	14,676,318

Approved by Management:

DONALD MACSWEEN
Director General

RONALD BLACKBURN
Assistant Director General
Finance and Administration

Approved by the Board of Trustees:

PIERRE BOUTIN
Chairman

THOMAS C. ASSALY
Vice-Chairman

NATIONAL ARTS CENTRE CORPORATION—*Continued*

STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED AUGUST 31, 1986

	1986	1985
	$	$
Operating revenue		
Performing arts programmes (Schedule 1)	8,509,765	6,971,740
Restaurants (Schedule 2)	3,479,382	2,794,280
Garage (Schedule 3)	1,524,608	1,614,389
Rentals	587,399	485,614
Boutique (Schedule 7)	147,493	97,614
Other	553,838	510,648
	14,802,485	12,474,285
Operating expenses		
Performing arts programmes (Schedule 1)		
Direct operating costs	14,466,704	13,036,840
Support services	2,980,123	3,193,552
Restaurants (Schedule 2)	3,295,768	2,582,893
Garage (Schedule 3)	450,341	401,455
Operation of the buildings (Schedule 4)	4,374,465	4,433,117
Administrative services (Schedule 5)	3,251,313	3,854,112
Boutique (Schedule 7)	155,450	100,892
	28,974,164	27,602,861
Excess of operating expenses over operating revenue	14,171,679	15,128,576
Other income		
Interest on short-term investments	309,549	436,970
Regional municipal grant	270,112	257,250
	579,661	694,220
Excess of expenses over revenue	13,592,018	14,434,356

STATEMENT OF SURPLUS FOR THE YEAR ENDED AUGUST 31, 1986

	1986	1985
	$	$
Surplus (deficit) at beginning of the year	8,378	(381,766)
Excess of expenses over revenue	(13,592,018)	(14,434,356)
	(13,583,640)	(14,816,122)
Parliamentary appropriation—Operating	14,679,831	14,824,500
Surplus at end of the year	1,096,191	8,378

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED AUGUST 31, 1986

	1986	1985
	$	$
Funds provided by (applied to) the following activities		
Operating	(14,733,824)	(15,148,227)
Financing	17,430,500	16,007,615
Investing	(2,576,872)	(1,180,884)
Increase (decrease) in cash during the year	119,804	(321,496)
(Bank overdraft) cash at beginning of the year	(136,501)	184,995
Bank overdraft at end of the year	(16,697)	(136,501)
Operating		
Excess of operating expenses over operating revenue	(14,171,679)	(15,128,576)
Items not requiring an outlay of funds		
Depreciation and amortization	687,414	679,878
Loss on disposal of fixed assets		1,112
Increase of components of working capital other than cash	(1,324,342)	(737,324)
Increase in the provision for employee termination benefits	74,783	36,683
	(14,733,824)	(15,148,227)
Financing		
Parliamentary appropriations		
Operating	14,679,831	14,824,500
Extraordinary building repairs	2,171,008	488,895
Interest on short-term investments	309,549	436,970
Regional municipal grant	270,112	257,250
	17,430,500	16,007,615
Investing		
Additions to fixed assets	(405,864)	(702,589)
Extraordinary building repairs	(2,171,008)	(488,895)
Proceeds from disposal of fixed assets		10,600
	(2,576,872)	(1,180,884)

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1986

1. Objectives and operations

The objectives of the Corporation are: to operate and maintain the National Arts Centre; to develop the performing arts in the National Capital Region; and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objects include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, Her Majesty demised and leased the National Arts Centre building complex to the Corporation for a period of twenty years, expiring May 31, 1989. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building complex, but is not required to pay for the use of the complex.

2. Significant accounting policies

(a) Basis of accounting

The accounts of the Corporation are maintained on an accrual basis.

(b) Short-term investments

Short-term investments are carried at cost which approximates market value.

(c) Grants

Grants are recorded as revenue in the year in which the grantors make firm commitments to the Corporation.

(d) Programmes in progress

Direct costs, including advances to performing companies and artists, incurred prior to the end of the year for programmes in progress are deferred and charged to expenses in the year in which the programmes terminate. Indirect costs and common services not attributable to particular performances are charged to expenses in the year in which they are incurred.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value for food, beverages and boutique materials or replacement cost for production materials.

(f) Fixed assets

Fixed assets used in the operations, other than the NAC complex, are recorded at cost. Depreciation and amortization are calculated on the straight-line method, as follows:

Building—l'Atelier	20 years
Equipment	5 and 7 years
Leasehold improvements	4 and 10 years

Gains and losses on disposals of fixed assets are credited or charged to operations.

Cost of uncompleted capital projects are transferred to the appropriate fixed asset classification upon completion, and are then depreciated or amortized according to the Corporation's policy.

Extraordinary repairs to the NAC building complex are deducted from the parliamentary appropriation received for that purpose and are neither capitalized nor expensed.

(g) Deferred revenue

Revenue from tickets sold prior to the end of the year for programmes in progress is deferred and credited to revenue in the year in which the programmes terminate. Gift certificates and exchange vouchers not redeemed within three years of the year of their issuance are written off and credited to revenue. A percentage of those less than three years old is also credited to revenue.

(h) Operating expenses

Expenses of performing arts programmes do not include costs relating to building and equipment maintenance, utilities, administrative services, furniture and equipment. Expenses of restaurants, garage and boutique do not include costs relating to utilities, administrative services and building maintenance. These costs are disclosed respectively as operation of the buildings expenses and administrative services.

(i) Pension plan

Employees of the Corporation participate in the Public Service Superannuation plan, administered by the Government of Canada. Contributions to the plan are required by both the employees and the Corporation. These contributions represent the Corporation's total obligation and are recorded as they become due.

(j) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

(k) Parliamentary appropriations

The parliamentary appropriation for operations, received during the period April 1 to August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. The Corporation credits to surplus each month one-twelfth of the approved appropriation. Accordingly, of the amount received to August 31, the amount received which is in excess of 5/12ths of the appropriation is deferred to the following year. In the event that the amount received is less than 5/12ths of the appropriation, the difference is recorded as a receivable.

The parliamentary appropriation received for extraordinary building repairs is deferred until used. An amount equal to the repairs incurred during the year is deducted from the deferred parliamentary appropriation. Should the total cost of the repairs be less than the amount received, the balance will be returned to the Consolidated Revenue Fund.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1986—*Concluded*

3. Accounts receivable

	1986	1985
	$	$
Customer accounts	525,081	851,907
Allowance for bad debts	(11,284)	(8,009)
	513,797	843,898
Parliamentary appropriation	628,331	
Grants	135,056	128,625
Loans to musicians for the purchase of instruments	81,260	108,021
Accrued interest	7,037	90,280
Other	34,812	52,281
	1,400,293	1,223,105

4. Inventories

	1986	1985
	$	$
Production materials	236,618	225,213
Food, beverages and tobacco	185,624	120,073
Boutique	44,902	21,713
	467,144	366,999

5. Prepaid expenses

	1986	1985
	$	$
Supplies	175,724	143,007
Commissions	81,480	87,430
Souvenirs and other items	34,285	34,517
Salaries for musicians on tour		226,561
Travel expenses for musicians and artists on tour		126,772
Miscellaneous	50,578	78,713
	342,067	697,000

6. Fixed assets

	1986			1985
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	$	$	$	$
Land	90,000		90,000	90,000
Building—l'Atelier	298,069	73,878	224,191	239,094
Equipment	3,673,142	2,092,367	1,580,775	1,883,947
Leasehold improvements	1,948,947	755,412	1,193,535	1,139,299
Uncompleted capital projects	8,728		8,728	26,439
	6,018,886	2,921,657	3,097,229	3,378,779

7. Accounts payable and accrued liabilities

	1986	1985
	$	$
Trade	1,053,355	1,143,027
Accrued salaries and annual leave	704,318	592,369
Payroll deductions and sales tax	292,553	463,038
Holdbacks on contracts	193,655	10,676
	2,243,881	2,209,110

8. Deferred revenue

	1986	1985
	$	$
Tickets sold prior to the end of the year for programmes in progress	2,271,278	2,675,763
Unredeemed gift certificates and other	136,546	139,108
	2,407,824	2,814,871

9. Parliamentary appropriation—Operating

	1986	1985
	$	$
Deferred from the previous year	8,501,500	8,652,000
Received during the year	5,550,000	14,674,000
Receivable at August 31	628,331	
Credited to surplus	(14,679,831)	(14,824,500)
Deferred to the following year		8,501,500

10. Parliamentary appropriation—Extraordinary building repairs

	1986	1985
	$	$
Deferred from the previous year	611,463	1,100,358
Received during the year	2,000,000	
Interest earned during the year	20,631	
Expenses for the year	(2,171,008)	(488,895)
Deferred to the following year	461,086	611,463

11. Commitments

As at August 31, 1986, commitments for operating leases and box office management services, with terms of more than one year, amounted to $1,360,408. Future minimum payments under these arrangements are payable as follows:

Year ending August 31	$
1987	504,302
1988	247,963
1989	128,886
1990	124,257
1991	165,000
1992	190,000
	1,360,408

12. Related party transactions

In addition to the rental of the NAC complex, provided free of charge, the Corporation receives audit services without charge from the Office of the Auditor General of Canada.

During the year, in the normal course of business, the Corporation incurred expenses totalling $554,078 (1985—$535,409) for utility services provided by the Department of Public Works and $85,929 (1985—$82,711) for ground maintenance and snow removal services provided by the National Capital Commission.

13. Comparative figures

Certain figures for the year ended August 31, 1985 have been reclassified to conform to the presentation adopted for the year ended August 31, 1986.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

SCHEDULE OF REVENUE AND EXPENSES—PERFORMING ARTS PROGRAMMES
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 1

	Dance and Variety		Music		Theatre		Total	
	1986	1985	1986	1985	1986	1985	1986	1985
	$	$	$	$	$	$	$	$
Revenue								
Box office	4,384,415	3,337,033	1,354,161	1,203,342	1,718,530	1,412,844	7,457,106	5,953,219
Tours			378,308	217,597	64,725	11,360	443,033	228,957
Broadcasts			223,807	348,372			223,807	348,372
Recordings			51,720	30,196			51,720	30,196
Co-productions					80,628	293,016	80,628	293,016
Sponsorships			110,941	8,872			110,941	8,872
Other	30,116	15,163	66,945	79,709	45,469	14,236	142,530	109,108
	4,414,531	3,352,196	2,185,882	1,888,088	1,909,352	1,731,456	8,509,765	6,971,740
Expenses								
Direct								
Talent, performers and musicians	3,501,815	2,597,535	3,735,179	3,530,150	1,033,397	1,220,231	8,270,391	7,347,916
Set, prop, sound and stage crew	629,695	537,628	309,784	316,049	1,224,839	1,203,121	2,164,318	2,056,798
Wardrobe	33	778	258	261	206,777	212,223	207,068	213,262
Artistic, creative and professional services	5,655	7,559	31,493	42,665	279,960	243,250	317,108	293,474
Theatre and other production	200,109	187,646	210,869	173,886	265,784	232,640	676,762	594,172
	4,337,307	3,331,146	4,287,583	4,063,011	3,010,757	3,111,465	11,635,647	10,505,622
Advertising								
Performances	346,225	263,397	192,544	196,199	263,016	210,625	801,785	670,221
Subscriptions	104,223	54,889	284,642	240,374	215,917	207,929	604,782	503,192
	450,448	318,286	477,186	436,573	478,933	418,554	1,406,567	1,173,413
Administration (Schedule 6)	367,214	305,107	459,493	493,300	597,783	559,398	1,424,490	1,357,805
Direct operating costs	5,154,969	3,954,539	5,224,262	4,992,884	4,087,473	4,089,417	14,466,704	13,036,840
Excess of expenses over revenue before support services	740,438	602,343	3,038,380	3,104,796	2,178,121	2,357,961	5,956,939	6,065,100
Support services (Schedule 6)							2,980,123	3,193,552
Excess of expenses over revenue							8,937,062	9,258,652

SCHEDULE OF REVENUE AND EXPENSES—RESTAURANTS
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 2

	1986			1985		
	Food	Beverage	Total	Food	Beverage	Total
	$	$	$	$	$	$
Sales						
Le Café	1,210,974	593,925	1,804,899	1,065,389	549,005	1,614,394
Catering	743,897	370,054	1,113,951	464,398	249,048	713,446
Bars		368,702	368,702		409,013	409,013
Green Room	60,497		60,497			
Total sales	2,015,368	1,332,681	3,348,049	1,529,787	1,207,066	2,736,853
Cost of Sales						
Cost of goods consumed	786,132	415,322	1,201,454	589,639	374,714	964,353
Less cost of employee meals	(28,351)		(28,351)	(18,437)		(18,437)
Net cost of sales	757,781	415,322	1,173,103	571,202	374,714	945,916
Gross profit	1,257,587	917,359	2,174,946	958,585	832,352	1,790,937
Other revenue			131,333			57,427
Total gross profit and other revenue			2,306,279			1,848,364
Operating and administrative expenses						
Salaries, wages and employee benefits			1,426,452			1,137,219
Supplies and equipment rental			320,745			217,041
Repairs and maintenance			98,217			75,023
Advertising and promotion			84,582			56,669
Depreciation and amortization			68,968			65,719
Music and entertainment			30,526			18,882
Credit cards commissions			23,135			17,962
Furniture and equipment			15,628			19,479
Professional services			12,393			5,818
Travel			6,453			5,909
Other			35,566			17,256
Total expenses			2,122,665			1,636,977
Excess of revenue over expenses			183,614			211,387

NATIONAL ARTS CENTRE CORPORATION—*Concluded*

SCHEDULE OF REVENUE AND EXPENSES—
GARAGE
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 3

	1986	1985
	$	$
Revenue		
Parking	1,524,339	1,614,019
Other	269	370
	1,524,608	1,614,389
Expenses		
Salaries, wages and employee benefits	392,632	359,641
Supplies	22,923	25,316
Repairs and maintenance	14,692	1,302
Depreciation and amortization	9,652	6,662
Advertising	633	1,799
Other	9,809	6,735
	450,341	401,455
Excess of revenue over expenses	1,074,267	1,212,934

SCHEDULE OF EXPENSES—
OPERATION OF THE BUILDINGS
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 4

	1986	1985
	$	$
Salaries, wages and employee benefits	1,803,038	1,632,909
Utilities	958,666	975,576
Repairs and maintenance to buildings and equipment	790,054	1,048,002
Depreciation and amortization	606,117	604,820
Professional services and expenses	85,772	86,040
Furniture and equipment	66,674	36,250
Laundry and dry cleaning	25,533	23,474
Office expenses	12,707	4,588
Uniforms	9,080	1,201
Travel and duty entertainment	6,316	6,817
Other	10,508	13,440
	4,374,465	4,433,117

SCHEDULE OF EXPENSES—
ADMINISTRATIVE SERVICES
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 5

	1986	1985
	$	$
Salaries, wages and employee benefits	2,293,132	2,878,863
Office expenses	159,848	227,110
Office rent	156,784	155,005
Telecommunications	131,007	147,914
Professional services and expenses	96,381	118,136
Insurance	89,338	68,577
Trustees' fees and expenses	76,449	52,027
Repairs and maintenance	60,699	54,662
Travel and duty entertainment	52,902	46,749
Advertising and promotion	39,315	33,323
Training	19,329	15,744
Other	76,129	56,002
	3,251,313	3,854,112

SCHEDULE OF EXPENSES
PERFORMING ARTS PROGRAMMES—
ADMINISTRATION AND SUPPORT SERVICES
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 6

	Administration		Support Services	
	1986	1985	1986	1985
	$	$	$	$
Salaries, wages and employee benefits	1,230,251	1,193,661	1,806,166	2,033,673
Travel and duty entertainment	124,442	110,627	25,160	31,501
Office expenses	34,955	19,913	126,533	167,223
Professional services and expenses	15,169	14,994	36,502	94,075
Commissions and service charges			411,724	251,735
Advertising and promotion			367,674	399,893
Warehouse rent			147,040	140,356
Other	19,673	18,610	59,324	75,096
	1,424,490	1,357,805	2,980,123	3,193,552

SCHEDULE OF REVENUE AND EXPENSES—
BOUTIQUE
FOR THE YEAR ENDED AUGUST 31, 1986 SCHEDULE 7

	1986	1985
	$	$
Revenue		
Sales	147,493	97,614
Expenses		
Cost of goods sold	85,047	51,217
Gross margin	62,446	46,397
General and administration		
Salaries, wages and employee benefits	53,503	39,719
Advertising and display	4,306	2,602
Amortization	2,677	2,677
Supplies and equipment rental	2,549	638
Travel	1,895	1,276
Furniture and equipment	356	
Other	5,117	2,763
	70,403	49,675
Total expenses	155,450	100,892
Excess of expenses over revenue	7,957	3,278

SUMMARY PAGE

NATIONAL CAPITAL COMMISSION

MANDATE

To prepare plans for and assist in the development, conservation and improvement of the National Capital Region.

BACKGROUND

Funding from Canada to the Commission is usually budgetary funding. The Commission's own revenues meet about 17 per cent of its operating expenses.

CORPORATION DATA

HEAD OFFICE	161 Laurier Avenue West Ottawa, Ontario K1P 6J6
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Stewart McInnes, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1958; by the *National Capital Act* (R.S.C. 1970, N-3). Canada has owned this corporation since 1899 with the creation then of the Ottawa Improvement Commission (1899-1927), succeeded by the Federal District Commission (1927-1958).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Jean Pigott
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85 (restated)**	**1983-84**
At the end of the period				
Total Assets*	298.3	306.5	332.8	411.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	26.3	31.1
Equity of Canada	267.1	284.4	281.4	344.5
Cash from Canada in the period				
— budgetary	59.0**	73.4**	97.1	86.6
— non-budgetary	nil	(26.3)	(4.8)	nil

* The data series on Total Assets and on Equity reflect NCC's change in accounting practice by recording depreciation; this change has lowered the book value of much of its assets from "historic cost" value to "net of depreciation" value.

** Net of sales proceeds and surplus (in 1986-87, $3.5 million; in 1985-86, $7.6 million) which were paid to Canada.

NATIONAL CAPITAL COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by members of the Commission. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that transactions are in accordance with the Financial Administration Act and regulations as well as the National Capital Act and By-Laws of the Commission. Internal audits are conducted to assess these systems and practices.

The members of the Commission carry out their responsibilities for the financial statements principally through an Audit Committee which consists of members of the Commission only. The Audit Committee meets periodically with management as well as with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external auditors have full access to the Audit Committee, with and without management being present.

The Commission's external auditor, the Auditor General of Canada, has examined the financial statements. He submits his report to the Minister of Public Works who is responsible for the National Capital Commission.

Jean E. Pigott
Chairman

John T. Denis
Chief Financial Officer

AUDITOR'S REPORT

THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of the National Capital Commis sion as at March 31, 1987 and the statements of operations, equity an changes in cash resources for the year then ended. My examinatio was made in accordance with generally accepted auditing standard and accordingly included such tests and other procedures as I con sidered necessary in the circumstances.

In my opinion, these financial statements present fairly the financia position of the Commission as at March 31, 1987 and the results of it operations and the changes in its cash resources for the year the ended in accordance with generally accepted accounting principle applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission tha have come to my notice during my examination of the financial state ments have, in all significant respects, been in accordance with Pa XII of the Financial Administration Act and regulations, the Nationa Capital Act, the articles and by-laws of the Commission.

Kenneth M. Dye, F.C.A
Auditor General of Canad

Ottawa, Canada
June 12, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Current		
Cash and short-term deposits	11,084	23,209
Accounts receivable		
Federal government departments and agencies	780	1,472
Tenants and others	1,196	731
Operating supplies, small tools and nursery stock (Note 2c)	660	682
Prepaid expenses	1,874	2,138
	15,594	28,232
Land, buildings and equipment (Note 3)	282,689	278,282
	298,283	306,514

LIABILITIES	1987	1986
Current		
Accounts payable and accrued liabilities	22,847	14,894
Unsettled expropriations of property	1,300	1,342
Holdbacks and deposits from contractors and others	1,876	1,352
	26,023	17,588
Long-term		
Accrued employee termination benefits	5,197	4,496
	31,220	22,084
EQUITY		
Equity of Canada	267,063	284,430
	298,283	306,514

Approved by the Commission:

JEAN E. PIGOTT
Chairman

A. L. MARTIN
Commissioner

NATIONAL CAPITAL COMMISSION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Expenses		
Planning and development	13,173	12,838
Real asset management	51,836	44,904
Public activities	11,915	9,957
Administration	15,255	15,300
	92,179	82,999
Revenues		
Property	9,690	8,848
Interest	1,178	1,921
Net gain on disposal of land, buildings and equipment	3,136	364
Other	1,863	1,496
	15,867	12,629
Net cost of operations	76,312	70,370
Parliamentary appropriations	62,445	81,026
Less: appropriations used to acquire land, buildings and equipment	15,131	11,462
	47,314	69,564
Excess of net cost of operations over parliamentary appropriations	28,998	806

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Balance at beginning of year as previously reported	284,430	377,346
Adjustment to record accumulated depreciation to beginning of year		(95,953)
Balance as restated	284,430	281,393
Excess of net cost of operations over parliamentary appropriations	(28,998)	(806)
Appropriations to acquire land, buildings and equipment	15,131	11,462
Payments to Canada	(3,500)	(7,619)
Balance at end of year	267,063	284,430

STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operating activities		
Excess of net cost of operations over parliamentary appropriations	(28,998)	(806)
Items not involving cash		
Depreciation	10,549	9,316
Net gains on disposal of land, buildings and equipment	(3,136)	(364)
Increase (decrease) in accrued employee benefits	701	(41)
	(20,884)	8,105
Increase (decrease) in non-cash operating working capital		
Accounts receivable	227	(436)
Inventories	22	(37)
Prepaid expenses	264	(659)
Accounts payable and accrued liabilities	7,953	(2,493)
Unsettled expropriations	(42)	(267)
Holdbacks and deposits	524	(228)
	8,948	(4,120)
Cash provided by (used in) operating activities	(11,936)	3,985
Investing activities		
Acquisition of land, buildings and equipment	(15,131)	(11,462)
Proceeds on disposal of land, buildings and equipment	3,311	3,259
Cash used in investing activities	(11,820)	(8,203)
Cash required before financing	(23,756)	(4,218)
Financing activities		
Parliamentary appropriations to acquire land, buildings and equipment	15,131	11,462
Repayment of loans from Canada		(26,309)
Payment of funds to Canada	(3,500)	(7,619)
Cash provided by (used in) financing activities	11,631	(22,466)
Decrease in cash	(12,125)	(26,684)
Cash and short-term deposits at beginning of year	23,209	49,893
Cash and short-term deposits at end of year	11,084	23,209

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and Objectives

The National Capital Commission was established by the National Capital Act, 1958. The Commission is a Crown Corporation without share capital named in Schedule C, Part I to the Financial Administration Act and is an agent corporation. The objects and purposes of the Commission are to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance.

2. Significant Accounting Policies

(a) Land, Buildings and Equipment

Land, buildings and equipment are generally recorded at historical cost. Property acquired at nominal cost or by donation is recorded at market value at time of acquisition. Property acquired by exchange is recorded at the carrying value of the assets disposed of in the transaction.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

(b) Depreciation

Depreciation is charged to operations in equal annual amounts based on the estimated useful life of the assets, as follows:

Buildings	20 years
Roads and bridges	25 years
Park landscaping and improvement	25 years
Festival equipment	5 years
Equipment	7 to 15 years
Vehicles	4 to 7 years
Equipment and vehicle attachments	10 years

(c) Operating Supplies, Small Tools and Nursery Stock

Operating supplies and small tools are carried at cost. Nursery stock is valued at estimated replacement cost less an allowance for overhead, balling and packaging expenses.

(d) Pension Plan

The Commission's employees participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the Plan are made by both the employees and the Commission on an equal basis. These contributions represent the total pension obligations of the Commission and are recognized in the accounts on a current basis.

(e) Employee Termination Benefits

Severance pay generally accrues to employees over their service period, and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

3. Land, Buildings and Equipment

	1987			1986
	Historical Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	(in thousands of dollars)			
Land and Buildings				
Greenbelt	54,525	15,457	39,068	39,647
Parkways	73,612	32,189	41,423	40,300
Parks	46,584	14,101	32,483	31,824
Bridges and approaches	26,094	12,299	13,795	14,206
Historical sites	15,924	7,800	8,124	8,470
Recreational facilities	14,452	5,409	9,043	9,067
Rental properties	139,295	11,239	128,056	125,218
Unsettled expropriations	1,300		1,300	1,342
Administrative and service buildings	10,825	5,703	5,122	5,180
	382,611	104,197	278,414	275,254
Less: provision for transfers*	2,045		2,045	2,070
	380,566	104,197	276,369	273,184
Equipment				
Equipment	4,483	3,060	1,423	1,241
Furniture	7,848	4,645	3,203	2,274
Vehicles	3,592	2,408	1,184	995
Antiques and works of art	823	313	510	588
	16,746	10,426	6,320	5,098
	397,312	114,623	282,689	278,282

* Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given free of charge for approaches to the MacDonald-Cartier Bridge, and for the transfer for $1 of lands to be used as a right-of-way for Highway 550.

4. Summary of Expenses by Major Classification

	1987	1986
	(in thousands of dollars)	
Payroll and related costs	37,801	33,482
Goods and services	24,249	25,439
Grants-in-lieu of taxes	13,007	7,933
Other contributions	6,573	6,829
Depreciation	10,549	9,316
	92,179	82,999

5. Major Commitments

(a) The Commission is committed to make contributions to other levels of government and other authorities as follows:

(i) Province of Quebec, one-half of the cost of the work of a road network within the Quebec portion of the National Capital Region. The Commission's remaining commitment to be paid over the next several years is estimated at $95 million and is subject to Treasury Board of Canada approval.

NATIONAL CAPITAL COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

(ii) The Outaouais Regional Community Transit Commission and the Ottawa-Carleton Regional Transit Commission, a total of $1.6 million annually to the end of 1988 to assist in the provision of interprovincial transit service in the National Capital Region.

(iii) The Canada Museums Construction Corporation Inc., 65% of the cost of landscaping sites for two new museums in the National Capital Region. The Commission's commitment is $7.0 million.

(b) The Province of Quebec has expropriated certain lands at Laurier Park on behalf of the Commission. An amount of $1.25 million will be payable to the province in exchange for appropriate title documents.

(c) The Commission has entered into agreements for computing services and leases of equipment and office space. Annual payments under these agreements are approximately as follows:

	(in thousands of dollars)
1987-88	3,032
1988-89	2,541
1989-90	2,553
1990-91	2,138
	10,264

6. Contingencies

(a) Claims

Claims and potential claims have or may be made against the Commission totalling approximately $25.7 million for alleged damages and other matters. The final outcome of these claims is not determinable and accordingly these items are not reflected in the accounts. However, in the opinion of management, the position of the Commission is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the settlements occur.

(b) Agreement with the Province of Ontario

In 1961, the Commission entered into an agreement whereby the Province of Ontario established and maintains 2,654 hectares (6,557 acres) of forest. When the agreement expires in 2011, or is terminated, the Commission will reimburse the Province for the excess of expenses over revenues, or the Province will pay the Commission the excess of revenues over expenditures. At March 31, 1986, cumulative expenditures exceeded cumulative receipts by $1.0 million, and are not reflected in the accounts of the Commission.

7. Related Party Transactions

(a) Exchange of Properties

In August and December 1986, the Commission, with the approval of the Governor in Council, exchanged certain properties with the Departments of National Defence and Public Works. The properties received were recorded at the carrying value of the properties transferred.

(b) Construction Costs

The Commission has permitted another Crown corporation to undertake major construction projects on certain Commission lands. Although the Commission is not responsible for funding and managing these projects, or reporting their costs, it may have title to the construction works. However, in keeping with the intent of these projects, which includes the eventual transfer of the lands as explained in Note 8, the Commission is not claiming ownership of the work in progress or the completed buildings. Accordingly, the value of the construction costs is not included in the records of the Commission or in its financial statements.

8. Subsequent Events

The Commission is in process of transferring certain lands to a federal government department. The estimated cost of these lands is $11.8 million. The financial statements of the Commission as at March 31, 1987 do not include this pending transaction because the authority necessary to effect the transfer has not yet been obtained.

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

SUMMARY PAGE

NORTHERN CANADA POWER COMMISSION

MANDATE

To plan, construct and operate, on a self-sustaining basis, public utilities in the Northwest Territories and, subject to approval of the Governor in Council, elsewhere in Canada.

BACKGROUND

Since incorporation in 1948, NCPC has acquired or installed power generation and distribution facilities in Yukon and the Northwest Territories. The federal government is presently pursuing options for the control of the Commission's operations to be transferred to the governments of the Territories. To this end, with the authority of the *Northern Canada Power Commission Yukon Assets Disposal Authorization Act* (S.C. 1987, C. 9), the assets and operations of the Commission in Yukon were sold on March 31, 1987 to the Yukon Power Corporation, a subsidiary of the Yukon Development Corporation, a corporation created by an ordinance of the Yukon Territorial Government.

CORPORATION DATA

HEAD OFFICE	7909 - 51st Avenue P.O. Box 5700 Station L Edmonton, Alberta T6C 4J8
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable William H. McKnight, P.C., M.P.
DEPARTMENT	Indian Affairs and Northern Development
YEAR AND MEANS OF INCORPORATION	1948; by the *Northwest Territories Power Commission Act* (amended as *Northern Canada Power Commission Act* (R.S.C. 1970, N-21))
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	John W. Beaver
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85 (restated)	1983-84
At the end of the year				
Total Assets	142.9	268.7	271.8	270.4
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	103.3	236.9	241.0	249.9
Equity of Canada	24.9	9.5	14.8	8.9
Cash from Canada in the period				
— budgetary	nil	nil	nil	negl.
— non-budgetary	11.6	3.9	5.0	20.1,net

NORTHERN CANADA POWER COMMISSION

AUDITOR'S REPORT

TO THE MINISTER OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

I have examined the balance sheet of Northern Canada Power Commission as at March 31, 1987 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Northern Canada Power Commission Act, and the by-laws of the Commission.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 4, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Property and equipment		
In service (Note 4)	99,599	221,226
Projects under construction	10	176
	99,609	221,402
Current		
Cash and term deposits	15,877	17,718
Accounts receivable		
Utilities	13,673	14,282
Other	1,008	771
Inventories		
Fuel and lubricants	10,095	11,570
Other supplies	2,657	2,982
	43,310	47,323
	142,919	268,725

LIABILITIES	1987	1986
Long-term		
Loans from Canada (Note 5)	96,129	224,839
Deferred credit		
Contributions in aid of construction	4,065	4,230
Current		
Due to Canada		
Overdue principal and related interest		9,583
Current portion of long-term loans	7,130	10,214
Accounts payable	7,355	8,288
Employee leave and termination benefits	3,098	1,843
Contractors' holdbacks	196	189
	17,779	30,117
	117,973	259,186
EQUITY OF CANADA		
Contributed surplus—Divestiture of operations (Notes 3(a) and 3(c))	1,319	
Contingency reserve (Note 8)	10,000	5,635
Retained earnings	13,627	3,904
	24,946	9,539
	142,919	268,725

Approved by the Commission:

J. W. BEAVER
Chairman and Chief Executive Officer

J. H. ROBERTSON
Member

NORTHERN CANADA POWER COMMISSION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Revenues		
Sale of power	90,776	80,457
Sale of heat	6,840	6,825
Other	1,597	1,482
	99,213	88,764
Expenses		
Operations and maintenance	59,498	54,577
Depreciation	11,577	11,070
Engineering and general administration (Note 6)	8,221	6,854
	79,296	72,501
Income from operations	19,917	16,263
Interest (Note 7)	22,521	21,524
Loss before extraordinary item	2,604	5,261
Extraordinary item (Notes 3(a) and 3(c))	1,319	
Net loss for the year	1,285	5,261

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
At beginning of the year	3,904	9,165
Net loss for the year	1,285	5,261
	2,619	3,904
Deficit related to Yukon operations written off (Note 3(a))	16,692	
Transfer to contributed surplus—Divestiture of operations (Notes 3(a) and 3(c))	(1,319)	
Transfer to contingency reserve	(4,365)	
At end of the year	13,627	3,904

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987	1986
Operating activities		
Reported net loss	(1,285)	(5,261)
Items not requiring an outlay of cash		
Depreciation	11,577	11,070
Overdue interest	5,469	7,762
Extraordinary item (Notes 3(a) and 3(c))	(1,319)	
Decrease (increase) in trade balances	701	(1,896)
Decrease (increase) in inventories net of transfer to the Yukon Territory on devolution (Note 3(a))	1,454	(931)
Funds provided by operating activities	16,597	10,744
Investing activities		
Expenditures for property and equipment	(13,013)	(4,040)
Disposal of property and equipment	63	847
Net funds used in investing activities	(12,950)	(3,193)
Financing activities		
Long-term debt retirement	(17,088)	(8,015)
Long-term loans from Canada	11,600	3,900
Net funds used in financing activities	(5,488)	(4,115)
Non-cash activities related to the devolution of operations in the Yukon Territory		
Disposal of assets	95,000	
Reduction of long-term debt	(95,000)	
Net non-cash activities		
Net increase (decrease) in funds	(1,841)	3,436
Funds at beginning of the year (cash and term deposits)	17,718	14,282
Funds at end of the year	15,877	17,718

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and objective

The Northern Canada Power Commission is a Crown corporation named in Schedule C, Part I, to the Financial Administration Act and operates under the Northern Canada Power Commission Act. The Commission is exempt from income tax.

The objective of the Commission is to provide utility services on a self-sustaining basis in the Northwest Territories, the Yukon Territory and, with the approval of the Governor in Council, elsewhere in Canada. As explained in Note 3, under the authority of the Northern Canada Power Commission Yukon Assets Disposal Authorization Act effective March 31, 1987, the Commission's business activities in the Yukon Territory were transferred to the Yukon Power Corporation, owned by the Government of the Yukon Territory.

2. Accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and applied on a basis consistent with that of the preceding year. A summary of the significant accounting policies of the Commission is as follows:

Property and equipment

Property and equipment, including that donated to the Commission by Canada and others, are carried at cost less accumulated depreciation. Costs of additions, betterments and major renewals are capitalized. In addition to direct costs of goods and services, capital project costs include interest at prevailing rates on loan funds used to finance construction during the construction period and a share of engineering and general administration expense which is directly attributable to the projects.

NORTHERN CANADA POWER COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

For normal retirements, the cost of property and equipment retired less disposal proceeds is charged or credited to accumulated depreciation with no gain or loss being reflected in operations. Gains or losses on disposal of property and equipment resulting from exceptional circumstances are reflected in the results of operations for the year.

Depreciation

Depreciation of property and equipment, financed by loans from Canada, and in service prior to March 31, 1977, excluding the Head Office building, is calculated as an amount equivalent to the principal portion of the repayment of the associated loan. The loans are being repaid by the annuity method over the estimated economic life of the assets. Property and equipment, financed by loans from Canada and in service subsequent to March 31, 1977, the Head Office building, property and equipment purchased from internally generated funds, and donated plants and extensions, are depreciated on the straight-line method.

Depreciation rates for the various classes of assets are based on their estimated economic lives, which for the principal classes of assets are:

Hydroelectric plants	30 - 50 years
Diesel engines and associated equipment	10 - 15 years
Fuel storage equipment	20 years
Buildings	20 - 30 years
Heating systems	20 years
Transmission and distribution systems	20 - 30 years
Office and general equipment	5 - 15 years
Motor vehicles	4 years

Deferred credit

Deferred credit represents contributions from Canada and others to aid the construction and acquisition of property and equipment, and is amortized over the estimated economic lives of the respective donated property and equipment.

Inventories

Inventories are valued at average cost. Provision is made for any decline in value of slow-moving inventory.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is recorded in the accounts as the benefits accrue to the employees.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Commission. These contributions represent the total liability of the Commission and are recognized in the accounts on a current basis.

Grants in lieu of taxes

Grants in lieu of taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada.

3. Devolution

On November 5, 1985, the Minister of Indian Affairs and Northern Development agreed to a Memorandum of Understanding with the territorial ministers representing the Governments of the Northwest Territories and the Yukon Territory, to transfer Northern Canada Power Commission to the territorial governments.

(a) Yukon Territory

The Northern Canada Power Commission Yukon Assets Disposal Authorization Act came into effect on March 31, 1987 and provides that the Commission's business operations related to the Yukon Territory be transferred to the Yukon Power Corporation, owned by the Government of the Yukon Territory. In exchange for the fixed assets and related parts inventory, the consideration was $95,000,000, which amount was applied against the debts and obligations of the Commission due to the Government of Canada in relation to the Commission's business operations in the Yukon Territory. The application of the financial terms of the Act has created an extraordinary gain as follows:

	(in thousands of dollars)
Long-term debt and interest forgiven and written off	46,358
Loss on the transfer of fixed assets	(27,938)
Loss on transfer of related parts inventory	(346)
Write-off of accumulated deficit	(16,692)
Extraordinary gain on the devolution of Yukon operations	1,382

The gain is recognized on the statement of income as an extraordinary item, and on the balance sheet an equivalent amount is credited to contributed surplus—Divestiture of operations.

(b) Northwest Territories

The terms and conditions of divestiture to the Government of the Northwest Territories had not been determined at the time of preparation of these financial statements.

(c) Field, B.C.

Order in Council PC 1987—7/955 of May 7, 1987 authorizes the Commission to sell the assets of Field, B.C. rate zone. The net book value of these assets as at March 31, 1987 has been written down by $63,000 to reflect the accepted bid price of $61,000. An agreement of sale was not signed at the time of preparation of these financial statements.

4. Property and equipment in service

	1987	1986
	(in thousands of dollars)	
Electric power plants	124,883	245,984
Transmission and distribution systems	25,832	43,724
Other utilities	3,687	3,687
Staff accommodation	3,430	3,891
Warehouses, motor vehicles and general facilities	7,415	8,223
	165,247	305,509
Less: accumulated depreciation	65,648	84,283
	99,599	221,226

5. Loans from Canada

The Commission receives funds for capital expenditures by way of interest-bearing loans from Canada. Interest at prevailing rates is accrued during the course of construction of a project and added to the amount borrowed. The total loan, including accrued interest is repaid on terms and conditions as approved by Governor in Council.

In 1979, the Commission received a working capital loan of $7,500,000 which was repaid on March 31, 1987.

At March 31, 1987, loans for capital expenditures carried interest at rates ranging from 4.125% to 15.625% with a weighted

NORTHERN CANADA POWER COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

average interest rate of 9.234% (1986—10.168%). Borrowings during the year were at an average interest rate of 9.15% (1986—10.5%).

Loans from Canada mature as follows:

	(in thousands of dollars)
1988	7,130
1989	7,254
1990	6,964
1991	7,132
1992	6,554
1993-2024	68,225
	103,259
Less: current portion	7,130
	96,129

6. Engineering and general administration expense

Engineering and general administration expense is net of $344,000 (1986—$287,000) allocated to capital projects.

7. Interest

	1987	1986
	(in thousands of dollars)	
Interest on long-term loans from Canada	25,057	23,699
Income from term deposits and receivables	2,536	2,175
	22,521	21,524

8. Contingency reserve

Order in Council PC 1980-1989 of July 24, 1980, authorizes the Commission to establish a contingency reserve which is not to exceed $10 million. The contingency reserve is non-funded.

9. Commitments

At March 31, 1987, the estimated committed cost to complete capital projects is approximately $797,000 (1986—$8,373,000).

10. Segmentation

The Commission operates predominantly as one industry, that being the generation and distribution of electric power. Most expenses are directly attributable to the geographic rate zones, and common expenses are allocated among the rate zones. Identifiable assets are those assets that are used in the operation of each rate zone. Corporate assets are primarily the property in Edmonton, cash and term deposits.

	1987	1986
	(in thousands of dollars)	
Revenues		
Northwest Territories	79,148	74,965
Yukon Territory	19,709	13,281
Field, B.C.	356	518
	99,213	88,764
Net income (loss)		
Northwest Territories	3,720	4,354
Yukon Territory	(6,361)	(9,751)
Field, B.C.	37	136
	(2,604)	(5,261)
Retained earnings		
Northwest Territories	13,123	13,800
Yukon Territory		(10,331)
Field, B.C.	504	435
	13,627	3,904
Identifiable assets		
Northwest Territories	122,628	127,601
Yukon Territory	2,477	121,685
Field, B.C.	130	176
Corporate	17,684	19,263
	142,919	268,725
Long-term debt including current portion		
Northwest Territories	102,248	104,240
Yukon Territory		122,129
Field, B.C.		
Corporate	1,011	8,684
	103,259	235,053
Depreciation expense		
Northwest Territories	7,763	7,185
Yukon Territory	3,683	3,759
Field, B.C.	19	13
Corporate	112	113
	11,577	11,070
Capital expenditures		
Northwest Territories	5,437	3,454
Yukon Territory	7,210	523
Field, B.C.	52	
Corporate	314	63
	13,013	4,040

11. Related party transactions

In addition to the transactions described in Notes 3, 5 and 7, the Commission has significant transactions with the Government of Canada and its agencies, as well as with territorial and municipal governments of the Northwest Territories and the Yukon Territory. These transactions and resulting balances comprise:

	1987	1986
	(in thousands of dollars)	
Sale of power and heat	43,869	43,957
Purchase of fuel	9,088	8,956
Contributions to the Public Service Superannuation Plan	742	711
Treasury bills and accrued interest	14,494	10,212
Accounts receivable	7,338	4,845
Accounts payable	1,959	2,203

Furthermore, the Commission receives audit and legal services without charge from the Office of the Auditor General of Canada and the Department of Justice of Canada.

SUMMARY PAGE

PACIFIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer, in the interests of safety, an efficient pilotage service within designated waters in and around British Columbia.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	300-1199 West Hastings Street Vancouver, British Columbia V6E 4G9
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (S.C. 1970-71-72, C. 52).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER (ACTING)	Morris Fellis
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983
At the end of the year				
Total Assets	4.4	5.0	4.4	4.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	negl.	0.1	0.1	0.1
Equity of Canada	2.6	2.8	2.6	2.5
Cash from Canada for the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

PACIFIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Pacific Pilotage Authority as at December 31, 1986 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 5, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and short-term deposits	1,289	1,499
Accounts receivable	2,233	2,508
Prepaid expenses	25	29
	3,547	4,036
Property and equipment (Note 3)	840	927
	4,387	4,963

LIABILITIES	1986	1985
Current		
Accounts payable and accrued liabilities	1,294	1,608
Obligations under capital lease (Note 4)	27	26
	1,321	1,634
Long-term		
Accrued employee termination benefits	427	443
Obligations under capital lease (Note 4)	30	57
	457	500
	1,778	2,134
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	1,803	2,023
	2,609	2,829
	4,387	4,963

Approved by the Authority:

R. A. HUBBER-RICHARD
Chairman

M. FELLIS
Member

PACIFIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenues		
Pilotage charges	23,187	21,859
Interest and other income	134	90
	23,321	21,949
Expenses		
Contract pilots' fees	16,300	15,041
Operating costs of pilot boats	2,454	2,347
Transportation and travel	2,193	1,912
Staff salaries and benefits	1,080	1,017
Pilots' salaries and benefits	711	638
Depreciation	169	175
Rentals	160	137
Professional and special services	158	126
Computer software costs	109	125
Communications	94	77
Utilities, materials and supplies	86	99
Repairs and maintenance	20	28
Interest on capital lease	6	6
Other	1	12
	23,541	21,740
Net income (loss) for the year	(220)	209

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Appropriated		
Balance at beginning and end of the year	500	500
Unappropriated		
Balance at beginning of the year	1,523	1,314
Net income (loss) for the year	(220)	209
Balance at end of the year	1,303	1,523
	1,803	2,023

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Net income (loss) for the year	(220)	209
Items not affecting cash		
Depreciation	169	175
Employee termination benefits	(16)	27
Loss on sale of property and equipment		11
Increase (decrease) in operating components of working capital	(34)	423
Cash provided by (required for) operating activities	(101)	845
Investing activities		
Additions to property and equipment	(82)	(125)
Financing activities		
Decrease in long-term obligations under capital lease	(27)	(26)
Increase (decrease) in cash	(210)	694
Cash and short-term deposits at beginning of the year	1,499	805
Cash and short-term deposits at end of the year	1,289	1,499

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Nature of activities

The Pacific Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Pilotage services on the Fraser River are provided by employee pilots and in other coastal waters under a contract with a local association of licensed pilots.

The Authority is not subject to any income taxes.

2. Significant accounting policies

Capital leases

Under the terms of certain lease agreements the Authority assumes the rights and obligations of ownership. These leases are treated as capital leases. An asset and an obligation are recorded at an amount equal to the market value of the asset at the beginning of the lease. The obligation is reduced each year by the principal portion of the lease payments and the interest portion is charged to expense.

Depreciation

Depreciation of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Pilot boats	20 years
Equipment	5 and 10 years
Leasehold improvements	15 years

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to property and equipment transferred from Canada in 1972 and the cost of any property and equipment financed from parliamentary appropriations are shown as contributed capital.

Retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of fixed assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

PACIFIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

3. Property and equipment

	1986	1985
	(in thousands of dollars)	
Buildings	40	40
Pilot boats	1,142	1,142
Equipment	800	718
Leasehold improvements	31	129
	2,013	2,029
Accumulated depreciation	1,173	1,102
	840	927

The above assets include property and equipment under capital leases at a total value of $276,000 (1985—$276,000) less accumulated depreciation of $193,000 (1985—$179,000).

4. Obligations under capital lease

	1986	1985
	(in thousands of dollars)	
Total minimum payments under 8% lease agreement with Canada for pilot boat, due April 1988, payable in blended annual payments of $32,000	64	97
Amount representing interest	(7)	(14)
Balance of the obligations	57	83
Current portion	(27)	(26)
Long-term portion	30	57

Upon maturity of the lease, the Authority has the option to purchase the pilot boat for $1.

5. Commitments

The Authority has a long-term lease obligation for office accommodation aggregating $1,002,560 for the period to December 31, 1999 at a base annual rent of $77,120. The obligation also calls for pro-rata share of operating costs estimated at $41,000 for 1987.

The Authority has an operating lease agreement for the services of a manned pilot boat with a guaranteed annual rental of $58,000 to 1990, plus operating expenses. There is an option to purchase the boat, at any time, at a price to be determined when the option is exercised.

SUMMARY PAGE

PETRO-CANADA

MANDATE

To explore for, research, develop, produce and distribute hydrocarbons and other types of fuel and energy, and to engage or invest in ventures related thereto.

BACKGROUND

After 11 years of operation the corporation employs 9,156 people and has $8.1 billion in total assets. Its growth was principally from its acquisition, in succession, of Atlantic Richfield, Pacific Petroleums, Petrofina, BP Canada and Gulf Canada rights and other assets but, as well, major new investments have been made by the corporation in frontier drilling. It is a significant share-owner in the promising Hibernia and Terra Nova offshore fields and is a participant in Beaufort Sea and in Venture (Nova Scotia) fields, and in the Syncrude tar-sands operation.

CORPORATION DATA

HEAD OFFICE	1000, 407 - 2nd Street, S.W. P.O. Box 2844 Calgary, Alberta T2P 3E3
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	1975; by the *Petro-Canada Act* (S.C. 1975, C. 61).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Wilbert H. Hopper
AUDITOR	Arthur Andersen & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984 (restated)**	**1983**
At the end of the year				
Total Assets	8,139	8,846	8,966	8,239
Obligations to the private sector	1,740	2,045	1,469	1,583
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	3,711	3,642	4,479	4,010
Cash from Canada in the year				
— budgetary	nil	(50)*	nil	nil
— non-budgetary	nil	nil	425	642

* Dividend to Canada

PETRO-CANADA

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances. Management is responsible for the other information in the Annual Report, which is consistent, where applicable, with that contained in the financial statements. Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced. The Corporation has an internal audit department whose functions include reviewing the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, a majority of which is composed of directors who are not employees of the Corporation. The committee meets with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

AUDITORS' REPORT

TO THE HONOURABLE MARCEL MASSE, P.C., M.P.
MINISTER
ENERGY, MINES AND RESOURCES CANADA
HOUSE OF COMMONS

We have examined the consolidated balance sheet of Petro-Canada (incorporated by Special Act of the Parliament of Canada) as at December 31, 1986 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change (with which we concur) in full cost accounting as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation and its consolidated wholly-owned subsidiaries that have come to our notice in the course of our examination of the consolidated financial statements of Petro-Canada were, in all significant respects, in accordance with the Financial Administration Act and the regulations thereto, the charter and by-laws of the Corporation and its consolidated wholly-owned subsidiaries and any directives given to the Corporation.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Canada
February 17, 1987

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1986
(in millions of dollars)

ASSETS	1986	1985
Current Assets		
Accounts receivable	874	1,307
Inventories (Note 4)	553	1,110
Income taxes recoverable	20	10
Deposits and prepaid expenses	35	33
	1,482	2,460
Investments (Note 5)	356	291
Property, Plant and Equipment, net (Note 6)	6,223	6,030
Deferred Charges (Note 7)	78	65
	8,139	8,846

LIABILITIES AND SHAREHOLDER'S EQUITY	1986	1985
Current Liabilities		
Outstanding cheques less cash	88	22
Accounts payable and accrued liabilities	933	1,489
Current portion of long-term debt	13	20
Short-term notes payable		532
	1,034	2,063
Long-term Liabilities	69	198
Long-term Debt (Note 8)	805	269
Advances on Future Natural Gas Deliveries	129	146
Deferred Income Taxes	1,469	1,304
Redeemable Preferred Shares (Note 9)	922	1,224
Capital (Note 10)	4,161	4,161
Deficit	(450)	(519)
	3,711	3,642
	8,139	8,846

Approved on behalf of the Board:

W. H. HOPPER
Director

W. McBURNEY ELLIOTT
Director

PETRO-CANADA—*Continued*

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1986
(in millions of dollars)

	1986	1985
Revenue		
Operating	5,089	5,300
Investment and other income	83	81
	5,172	5,381
Expenses		
Crude oil and product purchases	2,405	2,901
Marketing, general and administrative	787	552
Producing and refining	576	553
Taxes other than income taxes (Note 11)	512	428
Depreciation, depletion and amortization	394	410
Interest on long-term debt	36	24
Other interest	31	
	4,741	4,868
Earnings before undernoted items	431	513
Provision for income taxes (Note 12)		
Deferred	165	296
Current	84	45
	249	341
	182	172
Minority interest		2
Earnings before unusual items and dividends on redeemable preferred shares	182	174
Unusual Items (Note 13)		(865)
Net Earnings (Loss) before dividends on redeemable preferred shares	182	(691)
Dividends on redeemable preferred shares (Note 9)	59	78
Net Earnings (Loss) after dividends on redeemable preferred shares	123	(769)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986
(in millions of dollars)

	1986	1985
Internally Generated Cash		
Working capital provided from operations (Note 14)	728	870
Proceeds from sale of property, plant and equipment	59	64
Advances on future natural gas deliveries	(17)	(28)
Internally generated cash from operations	770	906
Decrease in operating working capital (Note 15)	406	16
	1,176	922
Investment Activities		
Acquisition of Gulf Canada Limited assets (Note 3)	301	714
Expenditures on property, plant and equipment	614	1,059
Petroleum Incentive Program grants	(166)	(349)
Increase in deferred charges	24	4
Increase (decrease) in investments, net	57	(330)
Decrease in minority interest in subsidiaries		296
	830	1,394
Financing Activities and Dividends		
Proceeds from issue of long-term debt	556	165
Increase (decrease) in short-term notes payable, net	(532)	532
Redemption of redeemable preferred shares	(356)	(105)
Dividends —Redeemable preferred shares	(59)	(78)
—Common shares		(50)
Reduction of long-term debt	(21)	(47)
	(412)	417
Decrease in Cash	(66)	(55)
Cash (Deficiency) at Beginning of Year	(22)	33
Cash (Deficiency) at End of Year	(88)	(22)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1986
(in millions of dollars)

	1986	1985
Retained Earnings (Deficit) at Beginning of Year	(519)	255
Net earnings (loss) before dividends on redeemable preferred shares	182	(691)
Dividends—Redeemable preferred shares	(59)	(78)
—Common shares		(50)
Exchange adjustment on redemption of redeemable preferred shares	(54)	(17)
Transfer from contributed surplus		62
Retained Earnings (Deficit) at End of Year	(450)	(519)

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1986
(in millions of dollars)

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada, an agent of Her Majesty in right of Canada, and of all subsidiary companies ("the Corporation") except Canertech Inc., which is excluded for the reason described in Note 5.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value.

(c) Investments

The Corporation accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

The Corporation accounts for its investment in oil and gas properties on the full cost method whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, drilling both productive and non-productive wells and overhead related to exploration and development. Separate cost centres have been established for each country in which the Corporation has an interest in oil and gas properties. The Corporation applies a "ceiling test", to each of its producing oil and gas cost centres, to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the balance sheet date, together with the unimpaired costs of certain projects in Canadian frontier areas and of unevaluated properties. In addition a consolidated ceiling test provides for future administrative overhead, financing costs and income taxes.

Costs are accumulated separately for the Syncrude Project, producing in situ and other oil sands leases. Over-burden removal costs relating to oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

Substantially all of the Corporation's exploration and production activities are conducted jointly with others. Only the Corporation's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(e) Depreciation, Depletion and Amortization

Costs incurred in producing oil and gas cost centres, other than unimpaired costs of certain projects in Canadian frontier areas and of unevaluated properties, and costs incurred on the Syncrude Project and producing in situ oil sands leases are depreciated or depleted separately on the unit of production method based on estimated proven recoverable oil and gas reserves before royalties. For purposes of calculating depreciation and depletion, natural gas production and reserves are converted to equivalent units of crude oil based on the relative energy content of each commodity.

Costs incurred in non-producing oil and gas cost centres and other oil sands leases are subject to review for impairment. Any impairment is charged to earnings. When exploration proves to be successful, and economic viability has been established, the unimpaired balance is depleted on the unit of production method when production commences.

Depreciation of other plan and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service life of the related asset.

(f) Income Taxes

The Corporation makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to expense.

(g) Translation of Foreign Currency

Current assets, except inventories and prepaid expenses, current liabilities and long-term debt are translated at rates of exchange in effect at the balance sheet date. Long-term assets, inventories, prepaid expenses, deferred income taxes and redeemable preferred shares are translated at rates of exchange in effect at the respective transaction dates. Revenue and expense items are translated at the average rates of exchange in effect during the year, except for depreciation, depletion and amortization, which reflect rates of exchange in effect when the assets were acquired.

The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Corporation's other activities and are translated in the above-described manner.

(h) Pension Plans

Costs of pension benefits for current services of employees are funded and are charged to earnings as they accrue. Costs arising from amendments to pension plans which relate to services of employees in prior years and experience deficiencies are funded in accordance with applicable pension legislation and charged to earnings over periods not exceeding fifteen years.

2. Full Cost Accounting

Effective January 1, 1986 the Corporation modified prospectively its full cost accounting for oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry" (Note 1 (d) and (e)). The effect of this change has been to increase 1986 earnings before unusual items and dividends on redeemable preferred shares by $17 million.

3. Acquisition of Gulf Canada Limited Assets

Pursuant to a 1985 agreement, the Corporation agreed to acquire certain refining and marketing assets from Gulf Canada Limited. In 1985, assets were acquired for $714 million and, effective April 1, 1986, the remaining assets, consisting mainly of the Edmonton refinery, were acquired for a further $301 million.

The net assets acquired in 1986, at attributed values, consist of:

Property, plant and equipment	291
Investments	1
Net working capital	9
	301

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1986—*Continued*

4. Inventories

	1986	1985
Crude oil, refined products and merchandise	498	1,044
Materials and supplies	55	66
	553	1,110

5. Investments

	1986	1985
At equity		
Westcoast Transmission Company Limited	177	181
Petro-Canada Centre	84	24
Sedpex Inc.	31	23
Other	17	12
At cost		
Mortgages and other investments	47	51
	356	291

Westcoast Transmission Company Limited ("Westcoast")

At December 31, 1986, the Corporation held 30.8% of the outstanding common shares of Westcoast.

Westcoast is a regulated utility and is subject to regulatory directives which may change the components of the cost of service. Changes resulting from such directives do not have a direct effect on net earnings due to rate of return on rate base considerations which are also taken into account in the regulatory process.

At December 31, 1986, the quoted market value of the Corporation's investment in Westcoast was $165 million (1985 — $228 million).

Petro-Canada Centre

At December 31, 1986, the Corporation held 50% of a joint venture which owns Petro-Canada Centre, an office complex in Calgary. The Corporation has entered into a long-term lease for use of a portion of the complex and has guaranteed $232 million of long-term debt related to the facility.

Sedpex Inc.

At December 31, 1986, the Corporation held 50% of the outstanding common shares of Sedpex Inc., a company which owns a semi-submersible drilling vesse' This vessel is under lease to the Corporation.

Canertech Inc. ("Canertech")

The accounts of Canertech, a wholly owned subsidiary company, have been excluded from consolidation because a formal plan exists to dispose of the investment in the subsidiary. In response to a directive by the Government of Canada, the Corporation incorporated Canertech in 1981 to develop alternate energy sources. At that time the Government indicated its intention of purchasing the Corporation's investment at cost and establishing Canertech as an independent Crown corporation. During 1984 the Government directed the Corporation to bring about the dissolution of Canertech. The Corporation is proceeding with the implementation of this directive. The Corporation's investment in Canertech is carried in the accounts at its original cost of one dollar.

6. Property, Plant and Equipment

	1986			1985
	Cost*	Accumulated Depreciation, Depletion and Amortization	Net	Net
Natural resources				
Oil and gas				
Canada	5,045	1,788	3,257	3,307
Foreign				
—Producing	64	39	25	34
—Non-producing	99	80	19	22
Oil sands				
Syncrude Project	667	113	554	526
Producing in situ	99	8	91	80
Other oil sands	203	203		
Natural gas liquids	204	69	135	143
Other	108	79	29	38
	6,489	2,379	4,110	4,150
Refined oil products	2,341	366	1,975	1,737
Other property, plant and equipment	253	115	138	143
	9,083	2,860	6,223	6,030

*Cost is net of related Petroleum Incentive Program grants and investment tax credits.

At December 31, 1986, $3,103 million of Canada oil and gas net costs were subject to depreciation and depletion.

7. Deferred Charges

	1986	1985
At cost		
Oil sands overburden removal costs	43	44
Less portion related to oil sands to be mined within one year	11	14
	32	30
At amortized cost		
Deferred financing costs	16	4
Translation adjustment on long-term debt	11	20
Other	19	11
	78	65

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

8. Long-term Debt

	Maturity	1986	1985
In Canadian dollars			
8.25% unsecured notes	1993	14	14
5.5% unsecured notes			7
Other	1987	1	1
In United States dollars			
7.25% unsecured debentures (U.S. $200 million)	1996	276	
8.25% unsecured debentures (U.S. $200 million)	2016	276	
LIBOR less 0.8% unsecured notes (U.S. $125 million)	1995	173	175
9% unsecured notes (U.S. $38 million)	1996	52	58
7.75% unsecured notes (U.S. $14 million)	1993	19	19
8.45% unsecured notes (U.S. $5 million)	1987	7	14
Other			1
		818	289
Less current portion		13	20
		805	269

Repayment of long-term debt

The minimum repayment of long-term debt in each of the next five years is as follows:

1987	13 million
1988	8 million
1989	8 million
1990	8 million
1991	8 million

9. Redeemable Preferred Shares

The redeemable preferred shares, which were issued by a subsidiary to a group of Canadian chartered banks, are floating rate, cumulative, and non-voting. Cumulative dividends, payable quarterly, are, at the option of the subsidiary, based on a percentage of either the United States Base Rates or the London Inter-Bank Offered Rates of the banks. At December 31, 1986, the dividend rate was approximately 3.5% per annum. The shares are redeemable, at the option of the subsidiary, at one hundred dollars U.S. per share, plus accrued dividends. In 1986 the subsidiary exercised its option to redeem 850,000 shares (1985—750,000 shares) for a consideration of U.S. $85 million (1985 — U.S. $75 million and repurchased 1,728,000 shares for a consideration of U.S. $172 million. At December 31, 1986, 7,872,000 shares were outstanding.

Under the terms of an agreement between the banks and the Corporation, in the event that the subsidiary does not exercise its option to redeem the shares over a seven-year period ending December 31, 1993, or in the event of certain other occurrences under the provisions of the agreement, the banks have the option to require the Corporation to purchase the shares at one hundred dollars U.S. per share, plus accrued dividends. These annual options increase from U.S. $78 million to U.S. $139 million over the remaining period.

10. Capital

Authorized

(a) 71,188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars.

Issued (to the Government of Canada)

	Number of Shares	Consideration
Common Shares		
Balance at beginning of year	31,883	3,188
Preferred Shares		
Balance at beginning and end of year	972,771,853	973
Total Capital at End of Year		4,161

The preferred shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

11. Taxes Other than Income Taxes

	1986	1985
Federal sales tax	411	249
Petroleum and Gas Revenue Tax	38	124
Other	63	55
	512	428

12. Income Taxes

The provision for income taxes of $249 million (1985 — $341 million) represents an effective rate of 57.8% (1985 — 66.5%) on earnings before income taxes of $431 million (1985 — $513 million). The computation of the provision, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1986	1985
Earnings before income taxes	431	513
Add (deduct)		
Royalties and other payments to provincial governments	169	307
Federal allowances		
Resource allowance	(127)	(260)
Tax depletion	(39)	(21)
Inventory allowance	(5)	(30)
Petroleum and Gas Revenue Tax	38	124
Non-deductible depreciation, depletion and amortization	81	95
Non-taxable gains	(21)	(1)
Equity in earnings of affiliates	(18)	(22)
Other	(3)	3
Earnings as adjusted before income taxes	506	708
Canadian Federal income tax at 47.8% (1985—46.9%) applied to earnings as adjusted	242	332
Provincial and other income taxes, net of federal abatement	12	16
Provincial income tax rebates	(5)	(7)
Provision for income taxes	249	341

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

13. Unusual Items

The unusual items charged to earnings in 1985 consisted mainly of asset write-downs associated with Canadian frontier oil and gas properties, process development costs and oil sands properties.

14. Working Capital Provided from Operations

	1986	1985
Earnings before unusual items and dividends on redeemable preferred shares	182	174
Add (deduct)		
Depreciation, depletion and amortization	394	410
Deferred income taxes	165	296
Equity earnings, net of dividends received		(7)
Other	(13)	(3)
	728	870

15. Changes in Components of Operating Working Capital

The increase (decrease) in operating working capital consists of:

	1986	1985
Accounts receivable	(433)	470
Inventories	(557)	264
Income taxes recoverable	10	(13)
Deposits and prepaid expenses	2	12
Accounts payable and accrued liabilities	556	(681)
Operating working capital acquired from Gulf Canada Limited (Note 3)	(9)	(293)
Accruals relating to 1985 unusual items, and other	25	225
	(406)	(16)

Operating working capital is comprised of working capital other than cash, short-term notes payable and current portion of long-term debt.

16. Pension Plans

Based on the most recent actuarial valuations of the Corporation's pension plans, at December 31, 1986 all accrued and vested benefits were fully funded. The actuarial projections of employees' compensation to time of retirement indicate that there was a present value obligation of $36 million (1985—$67 million) for pension benefits relating to plan amendments and experience deficiencies. This amount is being funded in accordance with the applicable pension legislation.

17. Material Transactions with Related Parties

Transactions with the Government of Canada and its agencies are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

18. Segmented Information

The Corporation operates in two business segments:

Natural resources, comprising exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined oil products, comprising purchase and sale of crude oil, refining crude oil into oil products and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and other includes investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and other assets are principally cash and short-term deposits, investments in other companies and general corporate assets.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

	Natural Resources		Refined Oil Products		Corporate and Other		Consolidated	
	1986	1985	1986	1985	1986	1985	1986	1985
Revenue								
Sales to customers and other revenues	546	976	4,588	4,350	38	55	5,172	5,381
Inter-segment sales	534	660						
Segment Revenue	1,080	1,636	4,588	4,350	38	55		
Earnings								
Operating earnings before depreciation, depletion and amortization	470	888	365	51	57	10	892	949
Depreciation, depletion and amortization	(245)	(299)	(141)	(107)	(8)	(4)	(394)	(410)
Interest					(67)	(24)	(67)	(24)
Provision for income taxes	(168)	(392)	(109)	34	28	17	(249)	(341)
Earnings (Loss) before Unusual Items and Dividends on Redeemable Preferred Shares	57	197	115	(22)	10	(1)	182	174
Capital Expenditures								
Capital expenditures on property, plant and equipment*, deferred charges and investments	319	520	118	168	92	(172)	529	516
Acquisitions including minority interests			301	1,010			301	1,010
	319	520	419	1,178	92	(172)	830	1,526
Total Assets	4,392	4,510	3,222	3,890	525	446	8,139	8,846
Capital Employed	4,102	4,107	2,698	2,995	305	(319)	7,105	6,783

* After deduction of related Petroleum Program grants and investment tax credits.

19. Comparative Figures

Certain reclassifications have been made to the 1985 comparative figures to conform with the current year's presentation.

20. Commitments and Contingencies

(a) Commitments

The Corporation has leased property and equipment under various long-term operating leases for periods up to 2008. The minimum annual rentals for non-cancellable operating leases are estimated at $55 million in 1987, $51 million in 1988, $48 million in 1989, $42 million in 1990, $37 million in 1991 and $15 million per year thereafter until 2008.

(b) Contingencies

The Corporation is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Corporation.

PETRO-CANADA—*Continued*

APPENDIX

CANERTECH INC.

AUDITORS' REPORT

TO THE SHAREHOLDER OF CANERTECH INC.

We have examined the Balance Sheet of Canertech Inc. (a wholly-owned subsidiary of Petro-Canada) as at December 31, 1986 and the Statements of Loss and Deficit and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Burke, Newman & Co.
Chartered Accountants

Winnipeg, Canada
February 13, 1987

BALANCE SHEET DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985	LIABILITIES AND SHAREHOLDER'S DEFICIT	1986	1985
Cash and term deposits	8,133	7,150	Accrual for dissolution costs (Notes 5 and 9)	857	857
Due from Energy, Mines and Resources Canada (Note 2)		2,250	Advances from the Government of Canada (Note 6)	29,550	31,800
Investment in Canertech Conservation Inc.		4,800	Shareholder's deficit (Note 7)	(17,187)	(16,762)
Other investments (Note 3)	4,937	1,015			
Income taxes recoverable (Note 4)	150	680			
	13,220	15,895		13,220	15,895

The accompanying notes are an integral part of this balance sheet.

Approved on behalf of the Board:

F. B. GRANT
Director

L. A. HIPFNER
Director

PETRO-CANADA—*Continued*

APPENDIX—*Continued*

CANERTECH INC.—*Continued*

STATEMENT OF LOSS AND DEFICIT
YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Equity in loss of Canertech Conservation Inc.	464	341
Provision for loss on disposition of Canertech Conservation Inc.	661	536
Interest income net of divestiture and management costs	(700)	
Net loss for the year	425	877
Deficit, beginning of year	16,762	15,885
Deficit, end of year	17,187	16,762

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Cash provided by (used for) operating activities		
Net loss for the year	(425)	(877)
Less: items not affecting cash		
—Equity in loss of Canertech Conservation Inc.	464	341
—Provision for loss on disposition of Canertech Conservation Inc.	661	536
—Other	(65)	
Cash from operations	635	
Cash provided by (used for) investment activities		
Proceeds on sales of investments	743	160
Net advances to investees	(925)	(1,416)
Proceeds on sale of fixed assest		175
Other assets		39
	(182)	(1,042)
Cash provided by (used for) financing activities		
Income taxes recoverable	530	
Accrual for dissolution costs		(5,461)
Obligation under capital lease		(103)
Energy, Mines and Resources Canada		160
	530	(5,404)
Increase (decrease) in cash and term deposits	983	(6,446)
Cash and term deposits, beginning of year	7,150	13,596
Cash and term deposits, end of year	8,133	7,150

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

Order-in-Council

On December 21, 1984, the Government of Canada issued Order-in-Council P.C. 1984-4187 which was subsequently replaced by P.C. 1986-2311 dated October 9, 1986 whereby the parent corporation was authorized to bring about the dissolution of Canertech Inc. and to replace federal Crown ownership of Canertech Conservation Inc., a wholly-owned subsidiary with other ownership.

1. Significant accounting policy

Consistent with the terms of the Order-in-Council, these financial statements have been prepared on the liquidation basis with the exception of the investment in Canertech Conservation Inc. Assets have been presented at their estimated net realizable values before costs of dissolution.

Canertech Conservation Inc. is accounted for by the equity method, to the time of sale, as management believed that consolidation of this subsidiary with Canertech Inc. would not have resulted in a more informative financial presentation.

2. Due from Energy, Mines and Resources Canada

The amount of $2,250,000 arose from the corporation's participation in the Societe Biosyn (Reg'd) joint venture. Prior to the above mentioned Order-in-Council of December 21, 1984, the corporation was to be reimbursed for these amounts by Energy, Mines and Resources Canada. It is anticipated that the ultimate settlement of these amounts will require the direction of the Treasury Board of the Government of Canada and will involve a set-off against the advances from the Government of Canada. The corporation has recorded this set-off in these financial statements.

3. Other investments

As a result of the disposition of the corporation's investment in Canertech Conservation Inc., the corporation acquired a non-interest bearing debenture receivable in the amount of $6,500,000. The first payment of $500,000 is due January 2, 1988 and the balance is due in 48 monthly payments of $125,000 commencing November 1, 1988.

This agreement contains an adjustment clause based on the realizability of certain contracts having a total value of $1.6 million. Management's estimate of the potential loss in this regard is $400,000 and accordingly this amount has been accrued in these financial statements.

The corporation holds a minority interest in Valera Electronics Inc. together with several loans receivable acquired as a result of the disposition of other investments. These investments are recorded at estimated net realizable values before costs of disposition. Included in other investments are certain notes receivable of which approximately $300,000 is due in 1987.

4. Income taxes recoverable

This amount represents the recovery of all income taxes previously paid by the corporation together with the benefit of certain Investment Tax Credits.

The benefits resulting from any future income tax reductions have not been recorded in these financial statements.

5. Accrual for dissolution costs

The accrual for dissolution costs represents management's anticipation of the costs to complete the disposition of assets and the settlement of liabilities. Should the corporation not conclude the disposition of investments as currently contemplated by management, additional costs may be incurred.

PETRO-CANADA—*Concluded*

APPENDIX—*Concluded*

CANERTECH INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

6. Advances from the Government of Canada

The advances are without requirement for interest or repayment. Management anticipates that the corporation will be unable to repay the obligation in its entirety and the Government of Canada will absorb the company's deficit upon dissolution. The corporation has reduced these advances by the $2,250,000 due from Energy, Mines and Resources Canada.

7. Share capital

Authorized—An unlimited number of common shares

Issued and fully paid—1 common share for $1

8. Contingencies

The corporation is a defendant in legal actions amounting to approximately $77 million. Management and legal counsel are of the opinion that the actions are without foundation and accordingly, no provision for such claims has been made in the accounts of the company.

9. Related party transaction

The parent company has provided management services to the corporation in the amount of $124,551 in 1986 ($150,000 in 1985). The amounts of the costs which remain unpaid as at December 31, 1986 and 1985 are $49,877 and $150,000 respectively.

10. Prior years financial statements

Certain reclassification were made to the 1985 comparative figures to conform with the 1986 financial statement presentation.

SUMMARY PAGE

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

MANDATE

To assist oil-importing developing countries to exploit their own hydrocarbon resources; to provide development assistance directly to Third World countries; and to be available as an executing agent for other institutions such as the World Bank.

BACKGROUND

The first meeting of the board of directors took place January 25, 1982. Since then, the corporation has been active in several countries, applying Canadian technology and expertise with Canadian official development assistance funding in the search for hydrocarbons and in related studies, and in providing technical assistance and personnel training to those countries. This is a non-profit, government-funded organization. By Order in Council P.C. 985-2957, pursuant to s. 97(2) of the FAA, the corporation was directed to report on its affairs as if it is a parent Crown corporation.

CORPORATION DATA

HEAD OFFICE	Constitution Square Suite 1601 360 Albert Street Ottawa, Ontario K1R 7X7
STATUS	—not in any schedule of the *Financial Administration Act* —not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	1981; under *the Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Peter M. Towe
AUDITOR	Arthur Andersen & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	1983
At the end of the year				
Total Assets	8.9	13.2	3.5	5.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	5.1	2.8	nil
Equity of Canada	negl.	negl.	negl.	negl.
Cash from Canada in the year				
—budgetary*	23.5	20.3	71.7	39.0
—non-budgetary	nil	nil	nil	nil

*Additional funding for activity supporting CIDA Pakistan projects was received via CIDA (in 1986, $10.5 million; in 1985, $17.1 million).

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

AUDITORS' REPORT

TO THE SHAREHOLDER

We have examined the balance sheet of Petro-Canada International Assistance Corporation (a wholly-owned subsidiary of Petro-Canada) as at December 31, 1986 and the related statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Canada
February 17, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current Assets		
Cash and short-term deposits	22,322	10,702,106
Accounts receivable		2,546,319
Excess of total expenditures over parliamentary appropriations received	8,891,383	
	8,913,705	13,248,425

LIABILITIES AND SHAREHOLDER'S EQUITY	1986	1985
	$	$
Current Liabilities		
Due to affiliated company, Petro-Canada Inc.	8,776,657	7,896,657
Income taxes payable	137,047	247,858
	8,913,704	8,144,515
Excess of parliamentary appropriations received over total expenditures		5,103,909
SHAREHOLDER'S EQUITY		
Share capital (Note 4)	1	1
	8,913,705	13,248,425

Approved on behalf of the Board:

P. M. TOWE
Director

M. CATLEY-CARLSON
Director

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION—*Concluded*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Project expenditures (Note 5)	46,252,352	34,103,200
Expenses		
General and administrative	2,424,470	1,469,354
Interest income, net	(1,246,910)	(995,696)
Current income taxes	630,222	509,315
Total expenditures	48,060,134	35,086,173
Parliamentary appropriations received during the year (Note 3)	34,064,842	37,429,233
	(13,995,292)	2,343,060
Excess of parliamentary appropriations received over total expenditures at beginning of year	5,103,909	2,760,849
Excess of total expenditures (over) under parliamentary appropriations received at end of year	(8,891,383)	5,103,909

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Sources of cash		
Parliamentary appropriations received	34,064,842	37,429,233
Decrease (increase) in accounts receivable	2,546,319	(2,535,922)
	36,611,161	34,893,311
Use of cash		
Expenditures	48,060,134	35,086,173
Increase in accounts payable	(769,189)	(7,398,079)
	47,290,945	27,688,094
(Decrease) increase in cash and short-term deposits	(10,679,784)	7,205,217
Cash and short-term deposits at beginning of year	10,702,106	3,496,889
Cash and short-term deposits at end of year	22,322	10,702,106

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Incorporation

The Corporation was incorporated in 1981 by Petro-Canada under the Canada Business Corporations Act as a wholly-owned subsidiary pursuant to directions provided by Order-in-Council P.C. 1981-2167 of August 5, 1981.

2. Operations

The Corporation's operations are financed by Parliamentary appropriations. An affiliated company, Petro-Canada Inc. ("PCI"), provides technical and administrative services to the Corporation at cost. In addition, the Corporation may also borrow from PCI such funds as it may require from time to time. Advances received from PCI, which cannot exceed $50,000,000 at any time, bear interest at the cost of borrowing to PCI.

3. Parliamentary appropriations

In addition to Parliamentary appropriations received pursuant to subsection 24.2 of the Petro-Canada Act, a portion of the Corporation's expenditures relating to the Pakistan project, amounting to $10,534,788 (1985—$17,081,233), were financed by Government funds made available to the Corporation through the Canadian International Development Agency.

4. Share capital

Authorized

Common shares—Unlimited

Issued

One common share for a cash consideration of one dollar.

5. Project expenditures

Project expenditures consist of the following:

	1986	1985
	$	$
Africa		
Kenya	9,692,668	4,155,393
Ghana—Phase II	4,279,347	
Tanzania—Phase II	3,368,629	71,280
Madagascar	3,205,526	
Morocco—Phase III	2,620,410	
Ghana	1,103,601	2,302,724
Morocco	872,171	390,000
Gambia	93,966	203,902
Botswana	62,295	
Guinea	39,293	618,861
Tanzania	22,899	1,345
Senegal	(2,115)	(420,103)
Morocco Special Project	(679)	16,523
	25,358,011	7,339,925
Asia		
Pakistan	11,162,188	17,213,660
Philippines—Phase II	2,738,953	628,276
Thailand	292,354	723,810
Philippines	93,640	86,269
Nepal	92,531	
Burma	(71,008)	1,769,016
Sri Lanka	(11,343)	177,153
	14,297,315	20,598,184
Western hemisphere		
Costa Rica	2,846,695	
Colombia	995,714	271,709
Barbados—Phase III	383,067	2,434,556
Jamaica—Phase III	218,474	2,557,978
Barbados—Phase II	28,894	104,418
Haiti	22,128	(8,646)
Jamaica—Phase II	7,078	131,362
Caribbean Region	1,755	96,035
Jamaica	(3,157)	(23,472)
Barbados	(2,820)	(13,870)
	4,497,828	5,550,070
Technical Assistance Facility	1,357,894	352,218
Project Development	741,304	262,803
	46,252,352	34,103,200

6. Comparative figures

The 1985 comparative figures were examined by Peat, Marwick, Mitchell & Co. whose auditors' report thereon, dated February 19, 1986, was without qualification. Certain reclassifications have been made to these comparative figures to conform with the current year's presentation.

SUMMARY PAGE

PORT OF QUEBEC CORPORATION

MANDATE

Administration, management and control of the Harbour of Quebec and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Port of Quebec Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The port is an important trans-shipment point for Canadian grain exports and has recently modernized its two grain elevators which are operated under contract by a private firm. The port handled 12.5 million tonnes of cargo in 1986 including 3.1 million tonnes of grain, a reduced performance due to a labour dispute that closed the port for more than three months.

CORPORATION DATA

HEAD OFFICE	150 Dalhousie Street P.O. Box 2268 Quebec City, Quebec G1K 7P7
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER (ACTING)	Louis P. Cormier
CHAIRMAN	Ross Gaudreault
AUDITOR	Thorne Riddell

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**7 months* to Dec. 31, 1984**
At year end			
Total Assets	65.9	88.0	83.6
Obligations to the private sector	nil	nil	nil
Obligations to Canada	nil	nil	nil
Equity of Canada	61.8	83.5	79.7
Cash from Canada in the period			
— budgetary**	nil	nil	nil
— non-budgetary	nil	nil	nil

* The corporation began operations on June 1, 1984.

** Takes no account of special contributions to Canada in 1986 of $21.7 million.

PORT OF QUÉBEC CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1986 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Port as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have been in all significant respects in accordance with the Financial Administration Act and regulations, the Canada Ports Corporation Act and by-laws of the Corporation.

Thorne Riddell
Chartered Accountants

Québec, Canada
January 30, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current assets		
Cash	297,030	275,356
Investments (Note 1)	12,160,125	33,109,060
Accounts receivable	1,760,930	3,256,021
Materials and supplies	68,781	60,373
	14,286,866	36,700,810
Investments (Note 1)	6,623,856	6,597,511
Fixed assets (Note 2)	44,951,490	44,692,982
	65,862,212	87,991,303

LIABILITIES AND EQUITY OF CANADA	1986	1985
	$	$
Current liabilities		
Accounts payable and accrued liabilities	2,050,841	2,486,742
Grants in lieu of municipal taxes	654,808	502,000
Deferred revenues	659,865	731,068
	3,365,514	3,719,810
Long-term		
Accrued employee benefits	737,500	791,000
EQUITY OF CANADA		
Contributed capital	107,251,631	107,251,631
Contribution to Canada (Note 3)	(21,735,000)	
Deficit	(23,757,433)	(23,771,138)
	61,759,198	83,480,493
	65,862,212	87,991,303

On behalf of the Board:

ROSS GAUDREAULT
Chairman

JEAN-MICHEL TESSIER
General Manager and Chief Executive Officer

PORT OF QUÉBEC CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenue from operations	7,962,545	9,405,701
Expenses		
Operating and administrative expenses	7,429,521	7,112,126
Depreciation	1,912,453	1,721,120
Grants in lieu of municipal taxes	1,024,639	1,016,136
	10,366,613	9,849,382
Loss from operations	(2,404,068)	(443,681)
Investment income	2,417,773	4,250,641
Net income	13,705	3,806,960
Deficit at beginning of the year	23,771,138	27,578,098
Deficit at end of the year	23,757,433	23,771,138

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1985	1984
	$	$
Cash provided by (used for)		
Operations		
Net income	13,705	3,806,960
Items not affecting cash		
Amortization of discount on Canada Government bonds	(26,345)	(26,345)
Depreciation	1,912,453	1,721,120
Gain on disposal of fixed assets	(105,184)	(46,947)
Accrued employee benefits	(53,500)	51,300
Changes in non-cash components of working capital	1,132,387	2,719,934
	2,873,516	8,226,022
Investment		
Additions to fixed assets	(2,178,038)	(5,384,700)
Proceeds on disposal of fixed assets	112,261	49,234
	(2,065,777)	(5,335,466)
Other		
Contribution to Canada	(21,735,000)	
Increase (decrease) in cash position	(20,927,261)	2,890,556
Cash position at beginning of year	33,384,416	30,493,860
Cash position at end of year	12,457,155	33,384,416
Represented by		
Cash	297,030	275,356
Investments	12,160,125	33,109,060
	12,457,155	33,384,416

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1986

General

The Port of Québec Corporation was incorporated on June 1, 1984, under article 6.2(1) of the Canada Ports Corporation Act.

Summary of significant accounting policies

(a) Investments

Investments are direct securities guaranteed by Canada. They are presented at amortized cost and the premium or discount is amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related fixed assets.

Depreciation is calculated using the straight line method, once the asset becomes operational for an entire year, using the following annual rates:

Dredging	2.5-6.7%
Berthing structures	2.5-10%
Buildings	2.5-10%
Utilities	3.3-10%
Roads and surfaces	2.5-10%
Machinery and equipment	5-100%
Office furniture and equipment	20%

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance

The Port of Québec Corporation assumes all risks with respect to compensation claims for occupational injury. Any costs arising from these claims are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits

Every year the Corporation accounts for estimated liabilities relating to severance pay, annual leave, sick leave and overtime compensatory leave; these benefits are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

1. Investments

Investments, which are direct securities guaranteed by Canada, are as follows:

	1986		1985	
	Cost	Market value	Cost	Market value
	$	$	$	$
Current	12,160,125	12,166,576	33,109,060	33,101,895
Long-term	6,623,856	7,860,139	6,597,511	7,387,483

PORT OF QUÉBEC CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

2. Fixed assets

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	11,043,597		11,043,597	11,043,597
Dredging	4,561,341	3,895,186	666,155	694,216
Berthing structures	22,636,930	15,867,910	6,769,020	6,704,977
Buildings	33,600,707	12,836,618	20,764,089	16,570,175
Utilities	3,427,705	1,876,360	1,551,345	1,649,523
Roads and surfaces	5,848,340	2,833,369	3,014,971	3,373,861
Machinery and equipment	499,355	384,448	114,907	138,802
Office furniture and equipment	443,006	232,517	210,489	168,750
Projects under construction	816,917		816,917	4,349,081
	82,877,898	37,926,408	44,951,490	44,692,982

As at December 31, 1986, contractual obligations for the completion, construction and purchase of fixed assets are estimated at $39,000, most of which will be expended in the year ending December 31, 1987.

3. Contribution to Canada

The Government of Canada has requested cash contributions from various Crown Corporations. As part of this cash recovery exercise, there was a request for a contribution of $133,000,000 from Canada Ports Corporation and the six local port corporations.

The Corporation's share amounted to $21,735,000 and has been recorded as contribution to Canada in the equity of Canada.

4. Contingencies

Claims aggregating approximately $2,660,000 have been received by the Corporation in respect of lawsuits, warranties, collective agreements, damages allegedly suffered on Corporation property and various other matters in dispute. These amounts are not recorded in the financial statements. In the Corporation's view, its position is defensible and these claims should not result in any material financial liability.

5. Operations

The operations of the Corporation have been reduced due to a lock-out by the Association des Employeurs Maritimes on September 15, 1986. Operations resumed on February 6, 1987.

SUMMARY PAGE

PRINCE RUPERT PORT CORPORATION

MANDATE

Administration, management and control of the Prince Rupert Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Prince Rupert Port Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The port recently completed development of a new site on Ridley Island. A modern, high-efficiency grain elevator and coal shipment terminal which was constructed by private interests went into service at this site in 1984. In 1986, 10.7 million tonnes of cargo was handled, 6.7 million tonnes of which was coal.

CORPORATION DATA

HEAD OFFICE	110 Third Avenue, West Prince Rupert, British Columbia V8J 1K8
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport, pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	R.W. Tytaneck
CHAIRMAN	A.T. Sheppard
AUDITOR	Thorne Ernst & Whinney.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**7 months to Dec. 31, 1984**
At the end of the year			
Total Assets	80.7	81.2	79.6
Obligations to the private sector	nil	nil	nil
Obligations to Canada*	75.4	76.6	76.6
Equity of Canada	(6.4)	(7.8)	(10.0)
Cash from Canada in the period			
— budgetary**	nil	0.3	(1.3)
— non-budgetary	nil	nil	nil

*Includes $48.3 million conditional obligation; excludes $11.0 million in accrued interest owed to Canada.

** Takes no account of special contributions to Canada in 1986 of $2.5 million.

PRINCE RUPERT PORT CORPORATION

AUDITORS' REPORT

THE HONOURABLE JOHN C. CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Prince Rupert Port Corporation as at December 31, 1986 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and Regulations, the Canada Ports Corporation Act, and the Letters Patent and By-laws of the Corporation.

Thorne Ernst & Whinney
Chartered Accountants

Vancouver, Canada
February 5, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current assets		
Cash	63,752	87,341
Investments (Note 1)	7,879,580	7,202,309
Accounts receivable	566,284	630,199
Due from Canada	63,937	
Materials and supplies	79,928	88,092
	8,653,481	8,007,941
Property, Plant and Equipment (Note 2)	72,024,049	73,214,955
	80,677,530	81,222,896

LIABILITIES AND DEFICIT OF CANADA	1986	1985
	$	$
Current liabilities		
Accounts payable and accrued liabilities	177,763	382,346
Payable to Canada		249,190
Grants in lieu of municipal taxes	351,711	495,821
Deferred revenues	186,251	229,263
	715,725	1,356,620
Long-term debt		
Loans from Canada (Note 3)	38,110,991	38,110,991
Recoverable contribution from Canada (Note 4)	48,300,000	49,511,864
	86,410,991	87,622,855
	87,126,716	88,979,475
DEFICIT OF CANADA		
Contributed capital (Note 5)	678,275	678,275
Contribution to Canada (Note 5)	(1,289,136)	
Deficit	(5,838,325)	(8,434,854)
	(6,449,186)	(7,756,579)
	80,677,530	81,222,896

Approved by the Board:

ALLAN T. SHEPPARD
Chairman

ROBERT W. TYTANECK
General Manager and Chief Executive Officer

PRINCE RUPERT PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenue from operations	11,314,851	10,622,368
Expenses		
Operating and administrative	7,845,088	7,771,561
Depreciation (Note 2)	1,244,666	918,496
Grants in lieu of municipal taxes	335,353	27,661
	9,425,107	8,717,718
Income from operations	1,889,744	1,904,650
Interest income	591,603	655,246
Gain (loss) on disposal of property, plant and equipment	115,182	(359,024)
Net income	2,596,529	2,200,872
Deficit at beginning of year	8,434,854	10,635,726
Deficit at end of year	5,838,325	8,434,854

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Cash provided by (used for)		
Operations		
Net income	2,596,529	2,200,872
Items not involving cash		
Depreciation	1,244,666	918,496
(Gain) loss on sale of property, plant and equipment	(115,182)	359,024
	3,726,013	3,478,392
Changes in non-cash components of working capital		
Accounts receivable	63,915	(18,884)
Materials and supplies	8,164	(14,622)
Accounts payable and accrued liabilities	(204,583)	(234,269)
Grants in lieu of municipal taxes	(144,110)	(468,001)
Deferred revenues	(43,012)	(114,678)
	3,406,387	2,627,938
Financing activities		
Increase (decrease) in payable to Canada	(249,190)	249,190
Contribution to Canada	(1,289,136)	
Increase in receivable from Canada	(63,937)	
Recoverable contribution from Canada	(1,211,864)	(64)
	(2,814,127)	249,126
Investment activities		
Proceeds from sale of property, plant and equipment	119,300	232
Purchase of property, plant and equipment (net of capital grants)	(57,878)	(1,573,365)
Decrease in receivable from Canada		82,839
	61,422	(1,490,294)
Increase in cash position	653,682	1,386,770
Cash position at beginning of year	7,289,650	5,902,880
Cash position at end of year	7,943,332	7,289,650

(Cash position is defined to include cash plus investments)

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1986

Local Port Corporation

The Prince Rupert Port Corporation ("the Corporation") was established effective June 1, 1984 as a local port corporation pursuant to the Canada Ports Corporation Act ("the Act"). The Corporation is exempt from income taxes.

On June 1, 1984, pursuant to the Act, all the assets and liabilities of the Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by the Canada Ports Corporation. The net liabilities assumed were recorded as contributed capital of $678,275 and a deficit of $11,673,894. Accordingly, the financial statements are prepared as though the Prince Rupert Port Corporation had operated these facilities since their inception.

Summary of significant accounting policies

(a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Property, plant and equipment
Property, plant and equipment are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related property, plant and equipment.
Depreciation is calculated on the straight-line basis using rates based on the estimated useful lives of the assets.

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits
The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

1. Investments

	1986	1985
	$	$
Amortized cost	7,879,580	7,202,309
Market value	7,855,119	7,188,651

PRINCE RUPERT PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1986—*Concluded*

2. Property, plant and equipment

(a) Summary

	1986				1985
	Depreciation rates	Cost	Accumulated depreciation	Net	Net
	%	$	$	$	$
Land		60,126,625		60,126,625	60,159,561
Dredging	2.5-6.7	5,177	1,165	4,012	4,141
Berthing structures	2.5-10	8,693,098	2,536,244	6,156,854	6,395,465
Buildings	2.5-10	2,351,656	334,209	2,017,447	2,085,123
Utilities	3.3-10	2,597,236	1,079,916	1,517,320	1,643,819
Roads and surfaces	2.5-10	3,512,387	1,640,261	1,872,126	2,240,684
Machinery and equipment	5-10	1,697,883	1,427,298	270,585	627,103
Office furniture and equipment	20	150,041	90,961	59,080	59,059
		79,134,103	7,110,054	72,024,049	73,214,955

(b) Depreciation

Depreciation consists of:

	1986	1985
	$	$
Depreciation expense	926,760	918,496
Writedown of equipment	317,906	
	1,244,666	918,496

3. Loans from Canada

	1986	1985
	$	$
Non-interest bearing loans with indefinite due date	27,084,979	27,084,979
Accrued interest on loans not due and payable	11,026,012	11,026,012
	38,110,991	38,110,991

4. Recoverable contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The recoverable contribution as at December 31, 1986 was $48,300,000.

The total recoverable contribution is interest-free until April 1, 1989, and thereafter bears interest at approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable over 20 years, commencing on April 1, 1989, contingent upon the revenues received from a direct coal throughput surcharge.

5. Contribution to Canada

Canada requested cash contributions from various Crown Corporations. As part of this cash recovery exercise, a request wa made for a contribution of $133,000,000 from the Ports Canad System made up of the Canada Ports Corporation and the si local port corporations.

The Corporation's share was in the amount of $2,501,000. A sum of $1,211,864 has been applied against Recoverable Contribution from Canada as authorized by the Minister of Transport The balance of $1,289,136 has been treated as a Contribution t Canada.

6. Related party transactions

(a) During the year ended December 31, 1986, the Corporatio received revenue of $1,169,454 (year ended December 31 1985, $1,250,370) from Ridley Terminals Inc., a company i which the Canada Ports Corporation has a significant investment.

(b) During the year the Corporation paid $436,093 (year ende December 31, 1985, $521,297) to Canada Ports Corporatio as its share of that corporation's head office expense.

SUMMARY PAGE

ROYAL CANADIAN MINT

MANDATE

To produce and arrange for the production and supply of coins of the currency of Canada; produce coins of currency of countries other than Canada; melt, assay and refine gold, silver and other metals; buy and sell gold, silver and other metals, etc.; mint coins; and carry out other related activities in anticipation of profit.

BACKGROUND

The Royal Canadian Mint was a departmental agency until 1969, when it was incorporated by legislation. For minting circulating Canadian coinage, it receives payment on a cost-recovery basis. Minting of numismatic and bullion coins, etc., yields profit which is payable to Canada. Occasionally, it receives loans from Canada for working capital and to finance capital projects.

CORPORATION DATA

HEAD OFFICE	320 Sussex Drive Ottawa, Ontario K1A 0G8
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Michel Côté, P.C., M.P.
DEPARTMENT	Supply and Services
YEAR AND MEANS OF INCORPORATION	1969; by the *Royal Canadian Mint Act* (R.S.C. 1970, R-8).
CHIEF EXECUTIVE OFFICER	Maurice Lafontaine
CHAIRMAN	James Corkery
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**1985**	**1984**	**1983**
At the end of the year				
Total Assets	116.8	115.9	72.4	73.1
Obligations to the private sector	0.4	0.6	0.6	0.8
Obligations to Canada*	82.8	76.7	58.7	49.3
Equity of Canada	1.0	1.0	1.0	1.0
Cash from (to) Canada in the year				
— budgetary	nil	(10.7)	nil	(24.4)
— non-budgetary, net	(3.7)	19.8	(2.1)	(2.1)

* Includes net earnings due to Canada.

ROYAL CANADIAN MINT

AUDITOR'S REPORT

TO THE MINISTER OF SUPPLY AND SERVICES

I have examined the balance sheet of the Royal Canadian Mint as at December 31, 1986 and the statements of earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with part XII of the Financial Administration Act and regulations, the Royal Canadian Mint Act and by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 20, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash	11,389	29,745
Accounts receivable		
Government departments	3,515	2,370
Other	7,876	5,120
Inventories (Note 4)	40,460	38,604
Prepaid expenses (Note 5)	299	286
	63,539	76,125
Long-term		
Property, plant and equipment (Note 6)	41,767	30,771
Deferred expenses (Note 7)	11,451	9,047
	116,757	115,943

LIABILITIES	1986	1985
Current		
Accounts payable		
Government departments	829	1,405
Other	12,051	16,640
Contractors' holdback	291	1,082
Due to Government of Canada		
Net earnings (Note 8)	52,788	42,978
Current portion of long-term loans (Note 10)	3,129	3,729
Accrued interest on long-term loans	821	818
Deferred revenues (Note 9)	14,674	13,943
	84,583	80,595
Long-term		
Loans from Government of Canada (Note 10)	26,875	30,003
Obligation under capital lease (Note 11)	100	355
Provision for employee termination benefits	4,199	3,990
	31,174	34,348
EQUITY OF CANADA		
Reserve for losses (Note 2)	1,000	1,000
	116,757	115,943

Approved by management:

M. A. J. LAFONTAINE
President and Master

J. E. UBERIG
Vice-President, Administration and Finance

Approved by the Board:

J. C. CORKERY
Chairman

ROYAL CANADIAN MINT—*Continued*

STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Revenues		
Gold Maple Leaf coins	786,263	874,693
Canadian numismatic coins	37,449	37,900
Canadian circulating coins	31,033	30,774
1988 Olympic Coin Program	31,859	7,316
Foreign contracts	16,885	9,138
Refinery	5,769	4,511
Miscellaneous	1,390	1,239
	910,648	965,571
Expenses (Note 12)		
Cost of materials used	833,558	899,189
Salaries, wages and benefits	23,929	21,937
Advertising	19,587	11,884
Utilities and supplies	4,171	3,854
Transportation and communications	5,966	4,014
Professional and special services	3,255	6,203
Depreciation	2,232	1,932
Interest on long-term loans and obligation under capital lease	3,466	2,226
Building and equipment rental	2,711	1,607
Miscellaneous	1,963	1,661
	900,838	954,507
Net earnings before extraordinary item	9,810	11,064
Deduct: extraordinary item		2,187
Net earnings for the year (Note 2)	9,810	8,877

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Operating activities		
Net earnings for the year	9,810	11,064
Extraordinary item		(2,187)
Items not affecting funds		
Depreciation	2,232	1,932
Amortization of deferred expenses	8,764	3,283
	20,806	14,092
Net change in non-cash working capital	(11,592)	10,654
Deferred expenses disbursements	(11,168)	(11,461)
Increase in provision for employee termination benefits	209	704
	(1,745)	13,989
Investing activities		
Additions to fixed assets	(13,228)	(15,375)
	(13,228)	(15,375)
Financing activities		
Payment of net earnings to Government of Canada		(10,700)
Loans from Government of Canada		21,970
Decrease in long-term debt	(3,128)	(3,730)
Decrease in obligation under capital lease	(255)	(223)
	(3,383)	7,317
Increase (decrease) in cash	(18,356)	5,931
Cash, beginning of the year	29,745	23,814
Cash, end of the year	11,389	29,745

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Authority and objectives

The Mint was incorporated in 1969 by the Royal Canadian Mint Act and is an agent of Her Majesty named in Part I of schedule C to the Financial Administration Act. The Mint operates through the Consolidated Revenue Fund.

The objectives of the Mint are to produce coins in anticipation of profits and carry out other related activities.

2. Statutory financial limitations

At the request of the Mint and on the recommendation of the Minister of Supply and Services, the Minister of Finance may make loans to the Mint on such terms and conditions as are approved by the Governor in Council for:

(a) meeting establishment and operating expenses of the Mint, in amounts not exceeding in the aggregate $5 million;

(b) financing the costs of capital projects that are approved by the Governor in Council; and

(c) temporary purposes, in amounts not exceeding in the aggregate $1 million, and each loan shall be repaid within twelve months from the day on which the loan was made.

The total amount outstanding at any time of loans made for (a) and (b) above shall not exceed $35 million.

Furthermore, the Mint may make provision from earnings for a reserve against possible losses, but the aggregate amount in the reserve at any one time shall not exceed $1 million. The Mint's net earnings for the year shall be applied:

(a) firstly, to previous years' losses that could not be met by a charge to the reserve;

(b) secondly, to the reserve; and

(c) any excess, to the revenues of Canada.

3. Significant accounting policies

(a) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. Assets and liabilities denominated in foreign currency at the balance sheet date are translated into Canadian dollars at the exchange rate in effect at that date.

(b) Inventories

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

Operating and maintenance supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 ½%
Buildings	2 ½%
Equipment	10%
Equipment under capital lease	20%
Leasehold improvements	50%

(d) Employee termination benefits

According to their collective agreement and terms of employment, employees are entitled to termination benefits. The liability for these benefits is recorded when earned by the employees.

ROYAL CANADIAN MINT—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

(e) Pension plan

The employees of the Mint participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the plan are required from both the employees and the Mint. These contributions represent the Mint's total liability and are recorded on a current basis.

4. Inventories

	1986	1985
	(in thousands of dollars)	
Raw materials	24,418	20,919
Work in process	3,781	3,277
Finished goods	8,685	11,107
Operating and maintenance supplies	3,576	3,301
	40,460	38,604

In order to facilitate the production of gold coins, the Mint borrows the quantity of gold required and pays interest based on the value of gold established on the London market. As at December 31, 1986 a total of 933,709 ounces were borrowed and are not reflected in these financial statements.

5. Prepaid expenses

	1986	1985
	(in thousands of dollars)	
Insurance, postage and freight	193	154
Rent	77	93
Other	29	39
	299	286

6. Property, plant and equipment

	1986			1985
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	619		619	619
Land improvements	976	550	426	441
Buildings	37,767	6,183	31,584	5,021
Equipment	21,751	12,770	8,981	7,867
Equipment under capital lease	1,006	849	157	506
Construction in progress				16,140
Leasehold improvements				177
	62,119	20,352	41,767	30,771

7. Deferred expenses

Included under this caption are expenses related to the launching of the 1988 Olympic Coin Program totalling $10.6 million. These expenses are recorded at cost and are amortized on the basis of anticipated sales over the duration of the Program from 1985 to 1988. $1.7 million was amortized in 1985 and $7.0 million in 1986.

8. Due to Government of Canada, net earnings

	1986	1985
	(in thousands of dollars)	
Balance at beginning of the year	42,978	44,801
Net earnings for the year	9,810	8,877
Paid during the year		(10,700)
Balance at end of the year	52,788	42,978

9. Deferred revenues

	1986	1985
	(in thousands of dollars)	
Regular Numismatic Products and 1988 Olympic Coin Program	14,674	10,520
Foreign contracts		3,423
	14,674	13,943

10. Loans from Government of Canada

These loans bear interest at various annual rates ranging from 8.125% to 12.00% and are repayable according to the following schedule:

	(in thousands of dollars)
1987	3,129
1988	2,989
1989	7,673
1990	2,673
1991	2,673
1992-1998	10,867
	30,004
Current portion	3,129
	26,875

The interest expense on these loans amounts to $3.4 million for the year (1985—$2.1 million).

11. Obligation under capital lease

The future minimum lease payments under capital lease are as follows:

	(in thousands of dollars)
1987	283
1988	102
Total future minimum lease payments	385
Less: amount representing interest	30
Present value of obligation under capital lease	355
Less: current portion	255
Long-term obligation under capital lease	100

The capital lease was recorded at an amount equal to the present value of the minimum lease payments using an implicit lease interest rate of 14.3%. This obligation expires in 1988.

ROYAL CANADIAN MINT—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

12. Expenses

Expenses include cost of goods sold detailed as follows:

	1986	1985
	(in thousands of dollars)	
Materials used	833,558	899,189
Direct labour	3,115	2,904
Manufacturing overhead expenses	17,157	21,831
	853,830	923,924

13. Extraordinary item

The Mint introduced an early retirement program effective January 1, 1985 in an effort to minimize the adverse effects of organizational changes necessitated by the consolidation of the facilities in the National Capital Region. The expenditure is reflected as an extraordinary item in the 1985 statement of earnings.

14. Related party transactions

Included in these financial statements are transactions with the Department of Finance relating to the borrowing, refining and purchasing of gold and silver. These transactions were conducted in the normal course of business, under the same terms and conditions that apply to unrelated parties.

15. Commitments

The Mint is committed to purchase the silver requirements for the 1988 Olympic Coin Program. $15.0 million will be payable in 1987.

16. Proposed amendments to the Act

The Royal Canadian Mint has proposed amendments to the Mint Act including a financial restructuring that would enable it to retain its net earnings.

SUMMARY PAGE

ST. ANTHONY FISHERIES LIMITED

MANDATE

To operate the St. Anthony fish plant in the year 1982 in the most efficient and economic manner possible.

BACKGROUND

The corporation has been inactive for several years.

YEAR AND MEANS OF INCORPORATION	May 21, 1982, pursuant to the Newfoundland *Companies Act* (R.S.N., C. 54).

By the *Crown Corporations Dissolution Authorization Act* (S.C. 1985, C. 41) authority was provided for the dissolution of this corporation and the Registrar of Companies for the Province of Newfoundland removed it from his register, effective March 27, 1987.

ST. ANTHONY FISHERIES LIMITED

THE CORPORATION HAS NEGLIGIBLE ASSETS AND WAS INACTIVE
DURING THE REPORT PERIOD

SUMMARY PAGE

SAINT JOHN PORT CORPORATION

MANDATE

Administration, management and control of the Saint John harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

Saint John Port Corporation was established on December 31, 1986, pursuant to the national ports policy to create local ports corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total port traffic in 1986 was 12.3 million tonnes, greater than 1985 traffic by 42 percent. Petroleum products, in particular crude oil imports at 9 million tonnes, accounted for 73 per cent of the 1986 tonnage, the rest of the tonnage being forest products, potash, grain and salt.

CORPORATION DATA

HEAD OFFICE	133 Prince William Street P.O. Box 6429, Station A Saint John, New Brunswick E2I 2B5
STATUS	—Schedule C, Part II —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1986; letters patent issued by the Minister of Transport pursuant to subsection 6(2)(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Kenneth Krauter
CHAIRMAN	Harry P. Gaunce
AUDITOR	Coopers & Lybrand

Balance Sheet Data at the Start of Operations

At January 1, 1987	($ million)
Total Assets	92.5
Obligations to the private sector	nil
Obligations to Canada*	58.3
Equity of Canada	1.6

* Excludes $10.0 million in accrued interest owed to Canada.

SAINT JOHN PORT CORPORATION

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
SAINT JOHN PORT CORPORATION

We have examined the balance sheet of the Saint John Port Corporation as at December 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this balance sheet presents fairly the financial position of the Corporation as at December 31, 1986 in accordance with generally accepted accounting principles.

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
February 18, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	LIABILITIES	1986
Current		Current	
Cash	88	Accounts payable and accrued liabilities (Note 5)	1,959
Investments (Note 3)	4,845	Grants in lieu of municipal taxes	549
Accounts receivable	2,070		2,508
Materials and supplies	129		
	7,132	Long-term	
Long-term investments (Note 3)	949	Accrued employee benefits	483
Fixed assets (Note 4)	84,368	Financing provided by a province (Note 6)	19,521
		Loans from Canada (Note 7)	68,356
			88,360
		EQUITY OF CANADA	
		Contributed capital	79,209
		Contribution to Canada (Note 8)	(1,033)
		Deficit	(76,595)
			1,581
	92,449		92,449

On behalf of the Board:

HARRY P. GAUNCE
Chairman

KENNETH R. KRAUTER
General Manager and Chief Executive Officer

SAINT JOHN PORT CORPORATION—*Concluded*

NOTES TO BALANCE SHEET
DECEMBER 31, 1986—*Concluded*

1. Canada Ports Corporation Act

In accordance with the Canada Ports Corporation Act, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was established effective at the closing of business on December 31, 1986.

In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation—Port of Saint John.

2. Significant accounting policies

(a) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

	Amortized cost	Market value
	(in thousands of dollars)	
Current	4,845	4,849
Long-term	949	1,159

4. Fixed assets

(a) Summary

	Depreciation rates	Cost	Accumulated depreciation	Net
	%	(in thousands of dollars)		
Land		30,063		30,063
Dredging	2.5-6.7	1,967	1,442	525
Berthing structures	2.5-10	62,918	24,930	37,988
Buildings	2.5-10	15,570	7,204	8,366
Utilities	3.3-10	7,651	2,752	4,899
Roads and surfaces	2.5-10	4,779	3,584	1,195
Machinery and equipment	5-100	1,904	1,567	337
Office furniture and equipment	20	711	396	315
Works under construction		680		680
		126,243	41,875	84,368

(b) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $87,000, of which most will be expended in the year ending December 31, 1987.

5. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are the following:

	(in thousands of dollars)
Deferred revenues	217
Current portion of long-term liabilities	175

6. Financing provided by a province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal, Saint John. The Province will receive annual principal payments equal to approximately 47% of the net operating income of the terminal until the non-interest bearing advance is repaid. The cost of major repairs has been included in calculating the net operating income of the terminal and the current portion payable as at December 31, 1986 has been calculated accordingly. The Province is disputing this accounting treatment. Had net operating income not been reduced by the cost of these major repairs, the current portion payable would increase further by an estimated $825,000.

7. Loans from Canada

	(in thousands of dollars)
Term loans bearing interest at 11.0% to 15.625% maturing between December 31, 1998 and 2005	20,565
Non-interest bearing loans with indefinite due date	37,768
Accrued interest on loans not due and payable	10,023
	68,356

8. Contribution to Canada

Canada requested from various Crown Corporations a portion of cash identified as surplus to their requirements. As part of this cash recovery exercise, a request was made for a contribution of $133,000,000 from the Ports Canada system made up of the Canada Ports Corporation and the seven Local Port Corporations.

The contribution of the Corporation amounted to $1,033,000 and has been treated as a Contribution to Canada.

SUMMARY PAGE

ST. JOHN'S PORT CORPORATION

MANDATE

Administration, management and control of the Harbour of St. John's and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

St. John's Port Corporation was established on June 1, 1985, pursuant to the national ports policy to create local ports corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total cargo handled by the port in 1986 amounted to 0.9 million tonnes.

CORPORATION DATA

HEAD OFFICE	3 Water Street P.O. Box 6178 St. John's, Newfoundland A1C 5X8
STATUS	—Schedule C, Part II —an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1985; letters patent issued by the Minister of Transport, pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	David Fox
CHAIRMAN	Fred Milley
AUDITOR	Doane Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	**7 months to Dec. 31, 1985**
At the end of the year		
Total Assets	14.4	16.9
Obligations to the private sector	nil	nil
Obligations to Canada	1.5	1.6
Equity of Canada	11.9	13.2
Cash from Canada in the period		
— budgetary*	nil	nil
— non-budgetary	nil	nil

* Takes no account of special contributions to Canada in 1986 of $1.8 million.

ST. JOHN'S PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1986, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

St. John's, Canada
January 29, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$ (Note 10)
Current		
Cash	25,118	2,646
Investments (Note 3)	2,988,103	5,614,056
Accounts receivable	295,148	351,506
	3,308,369	5,968,208
Investments (Note 3)	949,653	946,151
Fixed (Note 4)	10,139,334	9,940,186
	14,397,356	16,854,545

LIABILITIES	1986	1985
	$	$ (Note 10)
Current		
Accounts payable and accrued liabilities	280,031	1,348,692
Grants in lieu of municipal taxes	100,690	57,092
Deferred revenues	171,418	226,184
Current portion of loans from Canada	56,833	51,983
	608,972	1,683,951
Accrued employee benefits	75,362	72,985
Loans from Canada (Note 5)	1,839,939	1,896,773
	2,524,273	3,653,709
EQUITY		
Contributed capital	11,585,318	11,585,318
Contribution to Canada (Note 6)	(1,836,000)	
Surplus	2,123,765	1,615,518
	11,873,083	13,200,836
	14,397,356	16,854,545

Contingency (Note 7)
Commitments (Note 8)

On behalf of the Board:

FRED MILLEY
Chairman

DAVID J. FOX
General Manager and Chief Executive Officer

ST. JOHN'S PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$ (Note 10)
Revenue from operations	2,388,782	1,452,668
Operating and administrative expenses	1,501,052	864,410
Depreciation	561,936	211,044
Grants in lieu of municipal taxes	68,598	(60,670)
	2,131,586	1,014,784
Income from operations	257,196	437,884
Investment income—Net	251,051	313,728
Net income	508,247	751,612
Surplus, beginning of year	1,615,518	863,906
Surplus, end of year	2,123,765	1,615,518

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$ (Note 10)
Cash provided from (used for)		
Operating activities		
Net income	508,247	751,612
Depreciation	561,936	211,044
Other non-cash items	(958)	6,899
	1,069,225	969,555
Changes in		
Accounts receivable	56,358	(54,597)
Accounts payable and accrued liabilities	(1,068,661)	1,066,200
Grants in lieu of municipal taxes	43,598	(60,670)
Deferred revenues	(54,766)	74,018
Current portion of loans from Canada	4,850	4,436
	50,604	1,998,942
Financing activities		
Loans from Canada currently payable	(56,834)	(51,983)
Investing activities		
Purchase of fixed assets	(766,351)	(2,020,945)
Proceeds on disposal of fixed assets	5,100	
	(761,251)	(2,020,945)
Contribution to Canada	(1,836,000)	
Net cash used	(2,603,481)	(73,986)
Cash and short-term investments, beginning of year	5,616,702	5,690,688
Cash and short-term investments, end of year	3,013,221	5,616,702

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1986

1. In accordance with the Canada Ports Corporation Act, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

   In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of St. John's to the St. John's Port Corporation.

2. Significant accounting policies

   (a) Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   (b) Fixed assets

   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates indicated in Note 4.

   (c) Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   (d) Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   (e) Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1986		1985	
	Amortized Cost	Face Amount	Amortized Cost	Face Amount
	$	$	$	$
Short-term	2,988,103	3,042,700	5,614,056	5,810,600
	Amortized Cost	Market Value	Amortized Cost	Market Value
	$	$	$	$
Long-term	949,653	1,069,337	946,151	1,015,838

ST. JOHN'S PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

4. Fixed assets

	1986				1985
	Depreciation rate	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		3,370,578		3,370,578	3,370,578
Berthing structures	2.5-10	7,888,366	5,076,710	2,811,656	2,861,729
Buildings	2.5-10	1,902,865	1,366,126	536,739	624,673
Utilities	3.3-10	3,100,242	520,187	2,580,055	96,031
Roads and surfaces	2.5-10	713,084	593,551	119,533	153,834
Machinery and equipment	5-100	236,027	140,859	95,168	166,202
Office furniture and equipment	20	110,816	66,629	44,187	35,274
Projects under construction		581,418		581,418	2,631,865
		17,903,396	7,764,062	10,139,334	9,940,186

5. Loans from Canada

	1986	1985
	$	$
Loans, 9.33%, maturing in 2000, payable in equal annual instalments of principal and interest of $198,132. The loans are unsecured	1,514,453	1,566,437
Principal instalments payable within one year	56,833	51,983
	1,457,620	1,514,454
Accrued interest on loans	382,319	382,319
	1,839,939	1,896,773

Annual principal repayments in each of the next five years are as follows:

	$
1987	56,833
1988	62,136
1989	67,933
1990	74,271
1991	81,201

6. Contribution to Canada

During the year, the Government of Canada requested cash contributions from various Crown Corporations. As part of this cash recovery exercise, a request was made for a contribution of $133,000,000 from the Ports Canada system made up of the Canada Ports Corporation and the local port corporations.

The St. John's Port Corporation's share was in the amount of $1,836,000, which has been treated as a Contribution to Canada.

7. Contingent liability

Claims aggregating approximately $5,000,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

8. Commitments

Funds have been committed on capital projects as at the balance sheet date in the amount of $208,183. The full amount is expected to be expended during 1987.

9. Subsequent event

Subsequent to the balance sheet date, funds were committed on capital projects in the amount of $4,077,853. The full amount is expected to be expended during 1987.

10. Comparative figures

The comparative figures presented in these financial statements are for the seven month period ended December 31, 1985.

SUMMARY PAGE

ST. LAWRENCE SEAWAY AUTHORITY, THE

MANDATE

Construction, operation and maintenance of canals, bridges, works and other property related to the deep waterway between the Port of Montreal and Lake Erie, known as the St. Lawrence Seaway.

BACKGROUND

The St. Lawrence Seaway Authority was established in 1954 to construct and operate the Seaway in conjunction with an appropriate authority in the United States and to construct, maintain and operate bridges and other works and property incidental thereto as the Governor in Council may deem to be necessary. The Authority operates 13 locks and 20 moveable bridges in Canadian territory along the waterway, as well as four high-level bridges traversing the St. Lawrence River. Two locks in the United States are operated by the St. Lawrence Seaway Development Corporation.

A wholly-owned subsidiary, the Seaway International Bridge Corporation, Ltd. was established in 1962 to manage the international bridge at Cornwall, Ontario. A second wholly-owned subsidiary, the Jacques Cartier and Champlain Bridges Incorporated was established to manage the two high-level bridges in Montreal when these were transferred from the National Harbours Board in 1978. A third wholly-owned subsidiary, Great Lakes Pilotage Authority, Ltd. is a parent Crown corporation for the purposes of the *Financial Administration Act*. The Canadian span of the Thousand Islands Bridge at Lansdowne, Ontario has been directly administered by the Authority since this property reverted to Canada in 1976.

CORPORATION DATA

HEAD OFFICE	360 Albert Street Ottawa, Ontario K1R 7X7
STATUS	— Schedule C, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1954; pursuant to section 3 of the *St. Lawrence Seaway Authority Act* (R.S.C. 1970, S-1).
CHIEF EXECUTIVE OFFICER	William A. O'Neil
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	1985-86	1984-85	1983-84
At the end of the period				
Total Assets	652.8	645.3	668.9	668.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	210.0	210.0	210.0	210.0
Equity of Canada	417.2	407.7	432.5	434.6
Cash from Canada in the period				
— budgetary	13.2	nil	3.0	3.0
— non-budgetary	nil	nil	nil	nil

THE ST. LAWRENCE SEAWAY AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The St. Lawrence Seaway Authority as at March 31, 1987 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, The St. Lawrence Seaway Authority Act and the by-laws of the Authority.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 15, 1987

BALANCE SHEET AS AT MARCH 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
Current		
Cash and term deposits	9,071	2,248
Deposit in trust (Note 3)	1,863	1,863
Canada bonds		13,296
Accounts receivable	8,340	1,526
Accrued interest receivable	985	1,726
Supplies inventory	2,889	2,779
	23,148	23,438
Long-term receivables (Note 4)	257	309
Investments		
Long-term investments (Note 5)	17,604	15,810
Deposits in Consolidated Revenue Fund (Note 6)	13,000	13,000
Subsidiary companies (Note 7)	10	10
	30,614	28,820
Fixed (Note 8)	598,739	592,760
	652,758	645,327

LIABILITIES	1987	1986
Current		
Accounts payable	4,339	4,869
Accrued liabilities (Note 3)	9,470	10,468
	13,809	15,337
Long-term		
Accrued employee termination benefits	11,718	12,250
Deferred interest (Note 9)	210,000	210,000
	221,718	222,250
	235,527	237,587
Contingencies (Note 12)		
EQUITY OF CANADA		
Contributed capital (Note 9)	638,150	624,950
Deficit	(220,919)	(217,210)
	417,231	407,740
	652,758	645,327

Approved:

W. A. O'NEIL
President

R. J. FORGUES
Comptroller and Treasurer

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987					1986
	Montreal-Lake Ontario Section	Welland Section	Total Seaway	Thousand Islands Bridge	Total	Total
Revenues						
Tolls	24,874	27,133	52,007		52,007	47,798
Leases and licenses	490	2,030	2,520	90	2,610	2,376
Other	1,308	464	1,772	992	2,764	1,816
	26,672	29,627	56,299	1,082	57,381	51,990
Expenses						
Operating	6,352	10,098	16,450		16,450	17,183
Maintenance	8,926	12,376	21,302	113	21,415	24,823
Administration	4,442	4,784	9,226	326	9,552	9,217
Headquarters	3,998	4,586	8,584	36	8,620	8,575
Depreciation	4,652	5,708	10,360	32	10,392	9,079
Employee termination benefits	331	458	789		789	1,487
	28,701	38,010	66,711	507	67,218	70,364
Income (loss) from operations before unusual items	(2,029)	(8,383)	(10,412)	575	(9,837)	(18,374)
Unusual (expense) recovery items (Note 13)	(2,882)	1,455	(1,427)		(1,427)	(12,274)
Income (loss) from operations	(4,911)	(6,928)	(11,839)	575	(11,264)	(30,648)
Investment income	2,153	2,471	4,624	78	4,702	5,893
Income (loss) for the year before extraordinary item	(2,758)	(4,457)	(7,215)	653	(6,562)	(24,755)
Insurance claim recovery (Note 13)		2,853	2,853		2,853	
Net income (loss) for the year	(2,758)	(1,604)	(4,362)	653	(3,709)	(24,755)

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987			1986
	Seaway	Thousand Islands Bridge	Total	Total
Deficit (retained earnings), beginning of the year	219,251	(2,041)	217,210	192,455
Loss (net income) for the year	4,362	(653)	3,709	24,755
Deficit (retained earnings), end of the year	223,613	(2,694)	220,919	217,210

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987
(in thousands of dollars)

	1987			1986
	Seaway	Thousand Islands Bridge	Total	Total
Cash provided by (used in)				
Operating activities				
Income (loss) for the year before extraordinary item	(7,215)	653	(6,562)	(24,755)
Add items not involving cash				
Depreciation	10,360	32	10,392	9,079
Provision for termination benefits	789		789	1,487
Net change in working capital components other than cash and cash equivalents	(8,347)	(685)	(9,032)	1,417
Insurance claim recovery	2,853		2,853	
Cash used in operating activities	(1,560)		(1,560)	(12,772)
Financing activities				
Contributed capital	13,200		13,200	
Cash provided from financing activities	13,200		13,200	
Investing activities				
Reduction in long-term receivables	52		52	146
Purchase of treasury bills	(3,732)		(3,732)	
Purchase of long-term investment certificates	(5,000)		(5,000)	
Fixed assets	(16,654)		(16,654)	(4,357)
Proceeds from disposal of investments	6,938		6,938	20,748
Proceeds from disposal of fixed assets	283		283	175
Cash provided by (used in) investing activities	(18,113)		(18,113)	16,712
Increase (decrease) in cash position	(6,473)		(6,473)	3,940
Cash position at beginning of year	17,407		17,407	13,467
Cash position at end of year	10,934		10,934	17,407
Cash composed of				
Cash and term deposits	9,071		9,071	2,248
Deposit in trust	1,863		1,863	1,863
Canada bonds				13,296
	10,934		10,934	17,407
Working capital position at end of year				
Current assets	23,148		23,148	23,438
Current liabilities	15,198	(1,389)	13,809	15,337
	7,950	1,389	9,339	8,101

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and objectives

The St. Lawrence Seaway Authority was established in 1954 under The St. Lawrence Seaway Authority Act and is classified as a parent Crown corporation under Schedule C Part I of the Financial Administration Act.

The Authority was established to construct and operate a deep waterway between the Port of Montreal and Lake Erie together with such works and other property, including bridges incidental to the deep waterway, as deemed necessary by the Governor in Council.

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

(a) Supplies inventory

Supplies inventory comprises equipment and supplies used in the operation and maintenance of the Seaway and is recorded at cost.

(b) Investments in subsidiary companies

Investments in wholly-owned subsidiary companies are recorded at cost. The financial statements of the subsidiary companies have not been consolidated in these financial statements because changes in the equity of the subsidiaries do not accrue to the Authority. Separate audited financial statements for each of the subsidiary companies are available to the public.

(c) Fixed assets

Fixed assets are recorded at cost. Replacements and major improvements which increase the capacity of the deep waterway system or extend the estimated useful lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred and major betterments incurred to assure the reliability of the system are capitalized. The cost of assets sold, retired, or abandoned, and the related accumulated depreciation are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.

Depreciation is recorded using the straight-line method based on the estimated useful lives of the assets.

(d) Employee termination benefits

Employees of the Authority are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

(e) Pension plan

All employees of the Authority are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

(f) Thousand Islands Bridge

In September 1976, the Minister of Transport entrusted the Authority with the management and operation of the Thousand Islands Bridge, while the real property was vested in the name of Her Majesty in Right of Canada. Subsequent capital expenditures made by the Authority to improve the Bridge have been recorded as fixed assets. The retained earnings of the Bridge represent its cumulative earnings since September 1976.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Continued*

These financial statements have segregated the operations of the Thousand Islands Bridge on the premise that its management and operation by the Authority is independent of Seaway operations.

3. Deposit in Trust

Pending the completion of the transaction on the settlement with railroads relative to the Welland By-Pass, the Authority has transferred funds for the full payment to a trust account, and an equivalent amount is included in accrued liabilities.

4. Long-term receivables

The Authority has entered into long-term contractual agreements for the sale of one parcel of land and for the recovery of costs associated with the construction of certain facilities. Long-term receivables outstanding at March 31 are as follows:

	1987	1986
	(in thousands of dollars)	
5½% interest, recoverable in blended annual installments of $28,000, maturing in 1995	155	173
Non-interest bearing, recoverable in annual installments of $33,952, maturing in 1990	102	136
	257	309

5. Long-term investments

The long-term investment at March 31, set aside by the Authority in order to provide for future major capital improvement projects of The St. Lawrence Seaway and the rehabilitation of the Canadian span at the Thousand Islands Bridge, are as follows:

	1987	1986
	(in thousands of dollars)	
Canada Bonds		
Cost, maturing on varying dates up to 1989		
Par value $9,000 (1986—$16,000)		
Market value $9,374 (1986—$16,016)	8,872	15,810
Treasury Bills, maturing March 1988		
Market value $3,732	3,732	
Investment Certificates, maturing March 1990		
Market value $5,000	5,000	
	17,604	15,810

6. Deposits in Consolidated Revenue Fund

Consolidated Revenue Fund deposits bearing interest, set aside by the Authority in order to provide for future payments of employee termination benefits, mature on March 31, 1989.

7. Subsidiary companies and related parties

Investments in wholly-owned subsidiary companies consist of the following:

	No. of shares	Cost
		$
Great Lakes Pilotage Authority, Ltd. (GLPA)	15	1,500
The Jacques Cartier and Champlain Bridges Incorporated (JCCB)	1	100
The Seaway International Bridge Corporation, Ltd. (SIBC)	8	8,000
		9,600

During the year ended March 31, 1987, the Authority provided JCCB with certain administration services for which it charged $595,000 (1986—$581,000). At March 31, 1987, $63,000 was outstanding (1986—$76,000).

Each calendar year, SIBC pays a bridge user charge to the Authority (1986—$131,000; 1985—$307,000) to amortize the Authority's construction and interest costs related to the North Channel Bridge. At March 31, 1987, $11.5 million (1986—$11.6 million) in construction and interest costs remained unamortized.

The Canadian Coast Guard provides the Authority with navigational aids services. The fee paid by the Authority for this service in 1986-87 amounted to $525,000 ($525,000 in 1985-86).

8. Fixed assets

		1987			1986
	Depreciation rate	Cost	Accumulated depreciation	Net	Net
		(in thousands of dollars)			
Seaway					
Land		30,352		30,352	30,600
Channels and canals	1%	249,108	66,184	182,924	185,416
Locks	1%	236,066	82,766	153,300	155,584
Bridges and tunnels	2%	88,325	36,207	52,118	52,105
Buildings	2%	12,153	6,521	5,632	5,868
Equipment	2-20%	25,928	9,929	15,999	9,197
Remedial works	1%	134,396	25,329	109,067	110,522
Interest during construction		32,822		32,822	32,822
Works under construction		15,219		15,219	9,309
		824,369	226,936	597,433	591,423
Thousand Islands Bridge Improvements	2%	1,552	246	1,306	1,337
		825,921	227,182	598,739	592,760

Since the unpaid interest on loans from Canada may be forgiven (see Note 9), no depreciation has been provided on interest of $32.8 million capitalized during construction of the Welland Modernization Project.

Following the 1985 incidents and considering the age of the Welland Canal, the Authority has engaged consultants to examine the detail and report on the structural condition of the system. The report was submitted during 1986 and, as a result a seven-year $175 million rehabilitation program has been devised to refit the Welland Canal and ensure a continued safe and reliable waterway into the 21st century. The program consists of refurbishing of lock walls, stabilizing the canal banks and approach walls, and rehabilitating ancillary structures.

A study on the useful life of fixed assets with emphasis placed on an in-depth review of the present depreciation policy has also been undertaken.

9. Equity financing

As of April 1, 1977, loans from Canada of $624.95 million were converted to equity by parliamentary appropriation. This amount was recorded as contributed capital. The unpaid interest of $210 million on these loans was not converted and is reflected on the balance sheet as deferred interest. This deferred interest, on which no further accrual of interest is required, is not classified as a current liability because the Crown Corporations Directorate of the Department of Finance and Treasury Board is currently studying this matter with a view to obtain approval from Parliament to have the unpaid interest forgiven. Upon forgiveness, $32.8 million

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

will be credited to fixed assets (see Note 8) and $177.2 million will reduce the deficit.

The parliamentary appropriation authorizing the 1977 conversion of loans from Canada to equity also authorized the Minister to fix, from time to time, the amount that shall be paid by the Authority annually out of its toll revenue as a return on capital. No return on capital has been required to be paid for the years ended March 31, 1987 and 1986.

During 1986 the Government of Canada approved a budgetary equity infusion to finance the Welland Canal Rehabilitation Program for an amount not to exceed $175 million over a period of seven years as follows:

	(in millions of dollars)
1986-87	13.2
1987-88	24.5
1988-89	25.4
1989-90	26.9
1990-91	27.3
1991-92	28.7
1992-93	29.0
Total	175.0

As at March 31, 1987, $7.2 million of the approved equity infusion was received. The balance of $6.0 million is included in accounts receivable and was received subsequent to the year end.

10. Income taxes

The Authority, as a prescribed Federal Crown corporation, is subject to the provisions of the Income Tax Act; the Corporation has incurred substantial losses in prior years which can be carried forward and applied against taxable income of future years.

The Authority is not subject to any provincial income taxes.

11. Commitments

At March 31, 1987, contractual obligations for capital and other expenditures amounted to $.8 million (1986—$2.6 million).

12. Contingencies

Following the blow-out of a section of a wall at Lock 7 in October 1985, fifty-two court actions totalling $26.9 million were instituted against the Authority by shipping companies alleging economic losses suffered. In the previous year, as a result of the breakdown of the Valleyfield Bridge in November 1984, sixty-nine court actions totalling $23.0 million have been instituted. The Authority is contesting all these claims, however, their outcome cannot be determined at this time.

The Authority is also the claimant or defendant in certain other pending or threatened claims and lawsuits.

It is the opinion of management that these actions will not result in any material losses to the Authority.

Renewal of insurance against economic losses suffered by other parties could not be obtained.

13. Unusual and extraordinary items

During the course of the year, because of the 1985 incidents on the Welland Canal and at the bridges in the Montreal-Lake Ontario Section, the Authority has incurred unusual maintenance and legal expenses.

The amounts are summarized as follows:

	1987			1986
	Montreal-Lake Ontario	Welland	Total	Total
	(in thousands of dollars)			
Unusual maintenance (expenses) recoveries	(2,475)	1,519	(956)	(11,218)
Legal and engineering services (expenses)	(407)	(64)	(471)	(1,631)
	(2,882)	1,455	(1,427)	(12,849)
Less adjustments to accounts re: settlement with public utility and others				(575)
	(2,882)	1,455	(1,427)	(12,274)

The Authority also recovered from its insurers $2,853 thousand as a settlement in full for the loss of property due to the collapse of the Robin Hood Wall during 1983-84.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The Jacques Cartier and Champlain Bridges Incorporated as at March 31, 1987 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, as well as the charter and by-laws of the Corporation.

Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 1987

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS	1987	1986
	$	$
Current		
Cash and term deposits	3,752,041	3,990,774
Accounts receivable	260,866	215,373
Due from Canada	1,129,313	875,159
	5,142,220	5,081,306
Fixed		
Land	3,785,545	3,785,545
Bridges	73,276,394	73,276,394
Vehicles and equipment	678,553	658,609
	77,740,492	77,720,548
Less: accumulated depreciation	57,674,813	56,601,673
	20,065,679	21,118,875
	25,207,899	26,200,181

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable	1,519,658	1,471,053
Due to parent company	72,334	46,321
Deferred revenues	358,712	372,416
	1,950,704	1,889,790
Long-term		
Provision for employee termination benefits	640,390	667,843
Loans from Canada (Note 3)	66,242,472	66,242,472
Interest in arrears (Note 4)	44,513,580	44,513,580
	111,396,442	111,423,895
	113,347,146	113,313,685
SHAREHOLDER'S DEFICIENCY		
Capital stock		
Authorized—50 shares without par value		
Issued and fully paid—1 share	100	100
Capital deficiency (Note 5)	(71,713,153)	(71,731,472)
Deficit	(16,426,194)	(15,382,132)
	(88,139,247)	(87,113,504)
	25,207,899	26,200,181

Approved by the Board:

WILLIAM A. O'NEIL
Director

JACQUES Y. LAVIGNE
Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1987

	Jacques Cartier Bridge	Champlain Bridge	Total 1987	Total 1986
	$	$	$	$
Revenues				
Tolls		6,948,975	6,948,975	6,515,257
Interest	88,151	264,453	352,604	347,627
Other	56,316	136,014	192,330	162,485
	144,467	7,349,442	7,493,909	7,025,369
Expenses				
Operation	1,223,556	3,075,752	4,299,308	3,906,647
Maintenance	1,835,431	3,027,467	4,862,898	5,259,258
Administration	559,155	1,479,589	2,038,744	1,695,195
Depreciation	76,234	1,031,781	1,108,015	1,117,358
	3,694,376	8,614,589	12,308,965	11,978,458
Loss for the year	3,549,909	1,265,147	4,815,056	4,953,089

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Balance at beginning of the year	15,382,132	14,208,792
Loss for the year	4,815,056	4,953,089
	20,197,188	19,161,881
Parliamentary appropriation—Operations	3,770,994	3,779,749
Balance at end of the year	16,426,194	15,382,132

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1987

	1987	1986
	$	$
Operating activities		
Net loss for the year	(4,815,056)	(4,953,089)
Non-cash items		
Depreciation	1,108,015	1,117,358
Increase (decrease) in the provision for employee termination benefits	(27,453)	55,982
Gain on disposal of fixed assets	(36,500)	
	(3,770,994)	(3,779,749)
Changes in non-cash items of working capital	15,421	83,731
	(3,755,573)	(3,696,018)
Investing activities		
Additions to fixed assets	(54,819)	(63,777)
Proceeds from the disposal of fixed assets	36,500	1,367
	(18,319)	(62,410)
Financing activities		
Parliamentary appropriation	3,789,313	3,842,159
Cash and cash equivalents		
Increase for the year	15,421	83,731
Balance at beginning of the year	4,865,933	4,782,202
Balance at end of the year (*)	4,881,354	4,865,933
(*) Cash and term deposits	3,752,041	3,990,774
Due from Canada	1,129,313	875,159
	4,881,354	4,865,933
Working capital position at year-end		
Current assets	5,142,220	5,081,306
Current liabilities	1,950,704	1,889,790
	3,191,516	3,191,516

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and activities

The Jacques Cartier and Champlain Bridges Incorporated was established under the Canada Business Corporations Act on November 3, 1978 and is a wholly owned subsidiary of The St. Lawrence Seaway Authority, which is a Crown corporation named in Part I of Schedule C to the Financial Administration Act.

The Corporation is partially dependent on the Government of Canada for its financing.

Effective December 1, 1978, the Corporation assumed the responsibility for the operation, maintenance and control of the Jacques Cartier and Champlain bridges and of a portion of the Bonaventure Autoroute, situated in the Montreal area.

2. Significant accounting policies

Fixed assets

Fixed assets acquired from the National Harbours Board (now Canada Ports Corporation) on December 1, 1978 were recorded at their then book values. Subsequent additions are recorded at cost.

Fixed assets are depreciated over their estimated economic lives using the straight-line method, at the following rates:

Jacques Cartier Bridge	4.8%
Champlain Bridge	2.5%
Vehicles and equipment	10% and 20%

The cost of the portion of the Bonaventure Autoroute for which the Corporation is responsible and the initial cost of the Jacques Cartier Bridge are fully depreciated.

Parliamentary appropriation

The amount of the parliamentary appropriation used to cover the loss for the year is reflected in the statement of deficit. In this regard, operating expenses do not include depreciation and any change in the provision for employee termination benefits.

The balance of the parliamentary appropriation, used to finance the acquisition of fixed assets, is accounted for in the capital deficiency.

Any balance of the parliamentary appropriation required to finance the loss for the year and not received at the year end is shown as an amount due from Canada. Any parliamentary appropriation received in excess of requirements is recorded as due to Canada. It is the Corporation's policy to reimburse this amount in the following fiscal year.

Deferred revenues

The estimated value of unredeemed toll tokens and tickets as well as rental revenues collected in advance are recorded as deferred revenues.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Concluded*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

Expenses

Expenses incurred with respect to the portion of the Bonaventure Autoroute for which the Corporation is responsible are included with those for the Champlain Bridge.

Income tax

As a federal Crown corporation, the Corporation is not subject to provincial income tax. However, it is subject to the federal Income Tax Act from the fact that its parent corporation has been prescribed by regulation under that Act to be a federal Crown corporation. It has incurred substantial losses in prior years which can be carried forward and applied against taxable income of future years.

3. Loans from Canada

	$
Certificate of indebtedness	59,752,867
Advance	6,489,605
	66,242,472

The certificate of indebtedness, dated April 1, 1981, does not bear interest and does not carry a definite due date nor terms of repayment.

The advance, which bears no interest, was recorded in the accounts of Canada as a non-active loan and charged to the accumulated deficit of Canada when it was made.

4. Interest in arrears

Accumulated simple interest as at March 31, 1981, on loans from Canada, is recorded on the balance sheet as long-term since the Corporation does not foresee paying it, in whole or in part, during the next fiscal year. This interest does not include the interest since 1962 on a 2 3/4% loan in the amount of $7,576,000 issued with respect to the Jacques Cartier Bridge. The recording of this interest was discontinued when the tolls on this bridge were abolished.

5. Capital deficiency

When the Corporation took possession of its fixed assets on December 1, 1978, it also assumed the related debt obligations. The excess of such debts over the book value of the assets acquired at that date amounted to $72,448,371 and was recorded as a capital deficiency. The capital deficiency was reduced during the year by $18,319 ($62,410 in 1986) representing the parliamentary appropriation for financing the acquisition of fixed assets.

6. Related party transactions

Related party transactions not otherwise disclosed in these financial statements are as follows:

Operation services are received from the Montreal Port Corporation. Both corporations have agreed on the value of the services rendered on a regular basis to December 31, 1986. Since January 1, 1987 the Corporation has been invoiced for these services on an interim basis. The amount thus invoiced for the year ended March 31, 1987 amounts to $2,520,362 ($1,594,800 for 1986) of which $170,084 was unpaid as at March 31, 1987 ($132,900 as at March 31, 1986). The difference between the recorded amounts and those that shall be agreed upon will be accounted for when a final settlement will have been reached.

Administrative services from the parent company amounted to $594,718 ($580,506 in 1986). As at March 31, 1987, an unpaid balance thereon of $62,588 ($45,820 in 1986) is included in the amount due to the parent company. The Corporation estimates the cost of such services for the next year to be approximately $607,000.

7. Contingencies

In connection with its operations, the Corporation is the claimant or defendant in certain pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Corporation.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The Seaway International Bridge Corporation, Ltd. as at December 31, 1986 and the statements of operations and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Business Corporations Act, The St. Lawrence Seaway Authority Act and by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 6, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986

ASSETS	1986	1985
	$	$
Current		
Cash and term deposits	364,726	141,537
Accounts receivable	8,977	290,139
	373,703	431,676
Fixed		
Cost	194,017	171,755
Less: accumulated depreciation	140,127	130,516
	53,890	41,239
	427,593	472,915

LIABILITIES	1986	1985
	$	$
Current		
Accounts payable and accrued liabilities	64,573	67,496
Due to The St. Lawrence Seaway Authority	31,404	106,794
Deferred revenue	21,969	19,030
	117,946	193,320
Long-term		
Accrued employee termination benefits	293,647	263,595
Debentures payable (Note 3)	8,000	8,000
	301,647	271,595
	419,593	464,915
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—An unlimited number of common shares		
Issued and fully paid—8 shares	8,000	8,000
	427,593	472,915

Approved by the Board:

WILLIAM A. O'NEIL
President and Director

JAMES L. EMERY
Vice-President and Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Revenues		
Tolls	1,479,380	1,422,455
Rentals	66,978	65,314
Interest	20,847	26,432
Other	6,154	7,588
	1,573,359	1,521,789
Expenses		
Salaries and employee benefits	966,939	869,669
Maintenance, materials and services	289,000	179,997
Insurance	82,475	39,852
Employee termination benefits	30,052	34,783
Rental of toll collection machines	14,235	14,416
Electricity	13,409	12,250
Office supplies	11,679	7,139
Depreciation	9,611	7,671
Grants in lieu of municipal taxes	6,000	9,000
Professional services	2,440	15,547
Advertising	1,211	10,381
Other	14,904	14,290
	1,441,955	1,214,995
Excess of revenues over expenses due as bridge user charge (Note 4)	131,404	306,794

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1986

	1986	1985
	$	$
Operating activities		
Cash provided from (used in) operations		
Excess of revenues over expenses due as a bridge user charge	131,404	306,794
Items not requiring cash		
Employee termination benefits	30,052	34,783
Depreciation	9,611	7,671
	171,067	349,248
Increase (decrease) in accounts payable and accrued liabilities	(2,923)	19,749
Decrease (increase) in accounts receivable	281,162	(283,538)
Increase in deferred revenue	2,939	1,219
Payments to the St. Lawrence Seaway Authority for bridge user charge	(206,794)	(234,321)
	245,451	(147,643)
Investing activities		
Additions to fixed assets	(22,262)	(6,698)
Increase (decrease) in cash	223,189	(154,341)
Cash and short-term deposits, beginning of the year	141,537	295,878
Cash and short-term deposits, end of the year	364,726	141,537
Working capital position at year-end		
Current assets	373,703	431,676
Current liabilities	117,946	193,320
	255,757	238,356

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Authority and activities

The Seaway International Bridge Corporation, Ltd. is a Crown corporation pursuant to the Financial Administration Act and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, a parent Crown corporation named in Schedule C Part I of the aforementioned Act. The Corporation was incorporated under the Canada Corporations Act in 1962, continued under the Canada Business Corporations Act, and is subject to The St. Lawrence Seaway Authority Act. Its purpose is to operate and manage the international toll bridge system between Cornwall, Ontario, and Rooseveltown, New York, on behalf of The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation.

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

Bridge user charge

As described in Note 4 to the financial statements, the Corporation is required to distribute as a bridge user charge its excess of revenues over expenses. Payments are dependent on the Corporation's ability to generate excess revenues. Accordingly, the unpaid balances to The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation are not recorded as a liability in the books of the Corporation.

Fixed assets and depreciation

Fixed assets are recorded at cost. The cost of the North Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority and is being amortized over a period of 50 years. Costs incurred by the Corporation relating to the Bridge which do not extend its estimated useful life are expensed.

Depreciation is based on the estimated useful life of the assets calculated on the straight-line method at the following annual rates:

Automotive	20%
Maintenance equipment	10% to 20%
Office and toll equipment	10%

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under the conditions of employment. The liability for these benefits is recorded in the accounts as the employees become entitled to the benefits.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. These contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

Deferred revenue

Revenue from unredeemed toll tokens is deferred.

3. Debentures payable

These debentures, due on December 31, 2012, are non-interest bearing and payable to the Saint Lawrence Seaway Development Corporation.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Concluded*

APPENDIX 2—*Concluded*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

4. Bridge user charge

By agreement between The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation, the annual excess of revenues over expenses of the Corporation is due as a bridge user charge; first, to the Authority to offset the amortization of the cost of the North Channel Bridge together with interest; then to the Saint Lawrence Seaway Development Corporation to offset the amortization of a $300,000 contribution towards the cost of the Raquette River Bridge; and the balance, if any, is then divided equally between both parties.

All bridge user charges since the commencement of the Corporation's operations have been paid to The St. Lawrence Seaway Authority. At December 31, the unpaid balance of the total cost of the North Channel Bridge was as follows:

	1986	1985
	$	$
Cost of construction	8,539,695	8,539,695
Interest	7,860,462	7,860,462
	16,400,157	16,400,157
Less: bridge user charges		
Beginning of year	4,798,112	4,491,318
Current charge	131,404	306,794
End of year	4,929,516	4,798,112
Unpaid balance to The St. Lawrence Seaway Authority	11,470,641	11,602,045

5. Bridge use

With the approval of the Canadian Transport Commission, the Corporation has continued the practice of providing free usage of the bridge system to certain North American Indians. This represents a substantial portion of the Bridge traffic.

6. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, The St. Lawrence Seaway Authority provides to the Corporation, without charge, certain engineering and administrative support services.

7. Commitments

The Corporation has entered into a long-term lease for the rental of toll collection facilities and equipment which will expire in 1987. The minimum annual rental payment which will be paid in that year is $11,700.

SUMMARY PAGE

STANDARDS COUNCIL OF CANADA

MANDATE

To foster and promote voluntary standardization in fields relating to construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products, and other goods not expressly provided for by law, as a means of advancing the national economy, benefiting the public and protecting consumers.

BACKGROUND

The Council coordinates the activities of organizations involved in standardization in Canada, and represents Canada in international standardization organizations.

CORPORATION DATA

HEAD OFFICE	Suite 1200 350 Sparks Street Ottawa, Ontario K1P 6N7
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Consumer and Corporate Affairs
YEAR AND MEANS OF INCORPORATION	1970; by the *Standards Council of Canada Act* (R.S.C. 1970, 1st supplement C-41).
CHIEF EXECUTIVE OFFICER	John R. Woods
CHAIRMAN	Georges Archer
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year ends March 31.

	1986-87	**1985-86**	**1984-85**	**1983-84**
At the end of the period				
Total Assets	3.0	3.3	5.3	4.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1.9	2.2	4.4	3.4
Cash from Canada in the period				
— budgetary	6.7*	4.5*	6.6	6.0
— non-budgetary	nil	nil	nil	nil

* Net of amounts returned to Canada (1985-86, $0.9 million; 1986-87, $0.2 million).

STANDARDS COUNCIL OF CANADA

AUDITOR'S REPORT

TO THE STANDARDS COUNCIL OF CANADA
AND THE
MINISTER OF CONSUMER AND CORPORATE AFFAIRS

I have examined the balance sheet of the Standards Council of Canada as at March 31, 1987 and the statements of operations, surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Standards Council of Canada Act and by-laws of the Council.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 1987

BALANCE SHEET MARCH 31

ASSETS	1987	1986
	$	$
Current		
Cash and short-term deposits	1,824,379	2,768,726
Accrued interest	25,561	24,231
Accounts receivable		
Government of Canada	151,311	97,227
Other	153,191	132,742
Prepaid expenses	416,844	128,100
	2,571,286	3,151,026
Fixed		
Office furniture and equipment (Note 3)	388,669	184,104
	2,959,955	3,335,130

LIABILITIES	1987	1986
	$	$
Current		
Accounts payable and accrued liabilities	527,658	576,410
Customer and other deposits	95,913	65,425
Deferred sales revenue	127,786	
Payable to Government of Canada		199,000
	751,357	840,835
Long-term		
Provision for employee termination benefits	286,818	253,371
	1,038,175	1,094,206
EQUITY OF CANADA		
Surplus	1,921,780	2,240,924
	2,959,955	3,335,130

Approved by the Council:

GEORGES ARCHER
President

JOHN WOODS
Executive Director

STANDARDS COUNCIL OF CANADA—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Expenses		
Salaries, wages and employee benefits	3,047,397	2,886,456
Travel	1,126,616	1,072,963
Direct cost of standards purchases	803,752	422,974
Membership in international organizations	741,762	506,650
Publications and printing	720,494	588,898
Financial assistance to standards-writing organizations	648,320	694,166
Office accommodation	359,959	355,401
Public relations	326,432	149,248
Professional and special services	304,120	293,453
Telephone and postage	245,526	222,510
International secretariat costs	180,953	178,282
Depreciation	101,842	73,277
Rental of office equipment	62,493	69,110
Meetings	47,252	48,227
Office supplies	41,696	35,668
Other	111,597	109,435
General Meeting of the International Electrotechnical Commission		332,754
	8,870,211	8,039,472
Less: GATT Enquiry Point operating costs recovered from Department of External Affairs	341,000	327,464
costs of development assistance programs recovered from Canadian International Development Agency (CIDA)	31,925	21,181
	8,497,286	7,690,827
Revenues		
Sale of standards	963,881	580,710
Interest income	249,096	452,980
Other	30,165	19,591
Contributions for General Meeting of the International Electrotechnical Commission		114,940
	1,243,142	1,168,221
Cost of operations	7,254,144	6,522,606
Parliamentary appropriation		
Consumer and Corporate Affairs Vote 20	6,935,000	5,424,000
Less: amounts paid or payable to Government of Canada		1,099,000
	6,935,000	4,325,000
Deficiency of parliamentary appropriation over cost of operations for the year	(319,144)	(2,197,606)

STATEMENT OF SURPLUS
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Appropriated (Note 4)		
Balance at beginning of the year	827,036	1,045,350
Less: released during the year, net	(237,317)	(218,314)
Balance at end of the year	589,719	827,036
Unappropriated		
Balance at beginning of the year	1,413,888	3,393,180
Deficiency of parliamentary appropriation over cost of operations for the year	(319,144)	(2,197,606)
Released during the year, net	237,317	218,314
Balance at end of the year	1,332,061	1,413,888
	1,921,780	2,240,924

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31

	1987	1986
	$	$
Operating activities		
Deficiency of parliamentary appropriation over cost of operations for the year	(319,144)	(2,197,606)
Items not requiring an outlay of cash		
Depreciation	101,842	73,277
Employee termination benefits	77,669	67,982
	(139,633)	(2,056,347)
Payment of employee termination benefits	(44,222)	(41,825)
Changes in current liabilities and current assets other than cash and short-term deposits	(454,085)	313,925
Cash and short-term deposits used in operating activities	(637,940)	(1,784,247)
Investing activities		
Purchase of office furniture and equipment	(306,407)	(74,899)
Decrease during the year	(944,347)	(1,859,146)
Cash and short-term deposits at beginning of the year	2,768,726	4,627,872
Cash and short-term deposits at end of the year	1,824,379	2,768,726

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987

1. Authority and objectives

The Standards Council of Canada was created by Parliament as a corporation under the Standards Council of Canada Act in 1970 to be the national co-ordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule C to the Financial Administration Act. The Council carries out its task through the National Standards System, a federation of accredited organizations concerned with standards-writing, certification and testing.

The objectives of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products and other goods and to further international co-operation in the field of standards.

2. Significant accounting policies

(a) Office furniture and equipment

Office furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years

(b) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits has been recorded in the accounts as the benefits accrue to the employees.

(c) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Council. Contributions with respect to current service are expensed in the current period.

STANDARDS COUNCIL OF CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1987—*Concluded*

3. Office furniture and equipment

	March 31, 1987			March 31, 1986
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Office furniture	127,258	80,516	46,742	40,725
Office equipment	555,605	213,678	341,927	143,379
	682,863	294,194	388,669	184,104

4. Appropriated surplus

	March 31 1987	March 31 1986
	$	$
Reserve toward future cost of in-house electronic data processing facility	262,683	500,000
Reserve toward cost of hosting the Pacific Area Standards Congress XII in 1988	100,000	100,000
Reserve for contingencies	227,036	227,036
	589,719	827,036

5. Lease commitment

The Council has accepted an offer to lease office space at its present location for a five-year term commencing June 1, 1987. The future minimum annual rental under this agreement is $382,305.

SUMMARY PAGE

TELEGLOBE CANADA

MANDATE

To establish, maintain and operate, in Canada and elsewhere, international telecommunications services for the conduct of public communications.

BACKGROUND

Originally the Canadian Overseas Telecommunications Corporation, its name was changed in 1975 by the *Teleglobe Canada Act*. The corporation has operated and added substantially to overseas cable and other communications systems for Canada. The transfer of this business to a subsidiary and the sale of the latter to Memotec Data Inc. was announced by the government on February 11, 1987 and, with the proclamation of the *Teleglobe Canada Reorganization and Divestiture Act*, took place on April 3, 1987. Teleglobe Canada will be dissolved once the accounting for the transfer has been completed.

CORPORATION DATA

HEAD OFFICE	680 Sherbrooke Street, West Montreal, Quebec H3A 2S4
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Barbara McDougall, P.C., M.P., Minister of State (Privatization)
YEAR AND MEANS OF INCORPORATION	1949; by the *Canadian Overseas Telecommunications Act* (R.S.C. 1970, C-11).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Jean-Claude Delorme
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Late in 1984, the financial year-end, which had been March 31, was changed to December 31.

	1986	1985	9 months to Dec. 31, 1984	1983-84
At the end of the period				
Total Assets	502.4	524.9	574.6	520.0
Obligations to the private sector	57.1	66.5	68.3	64.4
Obligations to Canada	2.6	3.9	5.2	5.9
Equity of Canada	290.3	307.4	362.2	325.7
Cash from (to) Canada in the period, net				
— budgetary	(80.0)*	(108.1)*	nil	nil
— non-budgetary	(1.3)	(1.3)	(0.6)	(3.3)

*Remitted to Canada as dividends.

TELEGLOBE CANADA

AUDITOR'S REPORT

TO THE PRESIDENT OF THE TREASURY BOARD

I have examined the balance sheet of Teleglobe Canada as at April 3, 1987 and the statements of income and retained earnings and changes in financial position for the period of 93 days then ended for the purposes set out in Note 1. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at April 3, 1987 and the results of its operations and the changes in its financial position for the period of 93 days then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, on a going concern basis, without taking into account any transaction related to the Corporation's privatization, including the creation of a wholly-owned subsidiary on April 2, 1987, as outlined in Note 12.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Teleglobe Canada Act and regulations and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 18, 1987

BALANCE SHEET (NOTE 1)
(in thousands of dollars)

ASSETS	April 3, 1987	December 31, 1986
Current		
Cash and temporary investments, at cost (approximates market value)	108,724	92,909
Accounts receivable	100,797	96,723
Prepaid expenses	1,528	1,827
	211,049	191,459
Fixed assets (Note 3)	299,565	300,718
Other assets		
Long-term receivables	7,100	7,493
Deferred charges (Note 4)	95	2,743
	7,195	10,236
	517,809	502,413

LIABILITIES	April 3, 1987	December 31, 1986
Current		
Accounts payable	95,589	89,427
Income tax payable	8,643	13,406
Portion of long-term debt due within one year (Note 5)	8,690	9,371
	112,922	112,204
Long-term debt (Note 5)	47,654	50,363
Deferred credits		
Income tax (Note 9)	41,103	43,963
Other	5,860	5,580
	46,963	49,543
EQUITY OF CANADA		
Retained earnings	310,270	290,303
	517,809	502,413

Approved by the Board:

RONALD MONTCALM
Director

ROBERT V. LLOYD
Director

JEAN-CLAUDE DELORME
President and Chief Executive Officer

TELEGLOBE CANADA—*Continued*

INCOME AND RETAINED EARNINGS (NOTE 1)
(in thousands of dollars)

	93 days ended April 3, 1987	Year ended December 31, 1986
Revenues		
Public services	215,276	779,380
Other services	3,585	14,213
Share of Intelsat and Inmarsat revenues	5,502	19,860
	224,363	813,453
Carriers' share of revenues and other realization costs	149,465	539,663
Operating revenues	74,898	273,790
Operating expenses		
Salaries and benefits	14,228	57,272
Maintenance and rental	13,086	45,463
Depreciation	7,104	33,555
Other expenses	4,921	18,628
	39,339	154,918
Amount reimbursed to Commonwealth Telecommunications Organisation partners (Note 6)		7,941
	39,339	162,859
Operating income	35,559	110,931
Other income—Net (Note 7)	4,239	15,092
	39,798	126,023
Financial charges (Note 8)	1,242	7,093
Income before income tax	38,556	118,930
Income tax (Note 9)	18,589	55,980
Net income	19,967	62,950
Retained earnings at beginning	290,303	307,353
	310,270	370,303
Amount remitted to the Government of Canada		80,000
Retained earnings at end	310,270	290,303

CHANGES IN FINANCIAL POSITION (NOTE 1)
(in thousands of dollars)

	93 days ended April 3, 1987	Year ended December 31, 1986
Cash provided by (used for) operations		
Net income	19,967	62,950
Items not affecting cash		
Depreciation	7,104	33,555
Increase in other deferred credits	280	3,232
Amortization of unrealized losses on foreign exchange	253	835
Deferred income tax	(2,860)	(2,829)
Allowance for funds used during construction	(262)	(971)
Gain on disposal of assets		(109)
Changes in working capital items*	(2,446)	2,238
	22,036	98,901
Cash used for financing		
Reimbursement of long-term debt	(601)	(9,851)
	(601)	(9,851)
Cash provided by (used for) investments		
Acquisition of fixed assets	(12,117)	(26,034)
Proceeds from disposal of fixed assets	6,497	1,867
Decrease in long-term receivables		1,334
	(5,620)	(22,833)
Amount remitted to the Government of Canada		(80,000)
Cash and temporary investments		
Increase (decrease)	15,815	(13,783)
Balance at beginning	92,909	106,692
Balance at end	108,724	92,909

* Excluding cash, temporary investments and the portion of long-term debt and receivables due within one year.

NOTES TO FINANCIAL STATEMENTS
APRIL 3, 1987

1. Authority and activities

Teleglobe Canada, created by the Teleglobe Canada Act, was until April 3, 1987 mandated to establish, maintain and operate Canada's international telecommunication services and to coordinate these services with those of other countries.

On April 3, 1987 following adoption of the Teleglobe Canada Reorganization and Divestiture Act (S.C. 1986-87, c. 12), governmental approval, and the signing of a purchase and sale agreement, the Corporation's undertaking was effectively sold to Memotec Data Inc., which will operate it from now on under the corporate name of Teleglobe Canada Inc.

These financial statements present the financial position of the Corporation as at April 3, 1987 and the results of its operations and the changes in its financial position for the period of 93 days then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, on a going concern basis, without taking into account any transaction related to the Corporation's privatization, including the creation of a wholly-owned subsidiary on April 2, 1987, as outlined in Note 12.

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
APRIL 3, 1987—*Continued*

2. Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The Corporation follows the significant accounting policies summarized below:

(a) Fixed assets

Fixed assets are stated at acquisition cost, which includes salaries, benefits and certain overhead costs related to construction activities. In addition, for major capital projects, an allowance for funds used during construction is included.

Jointly-owned fixed assets are accounted for proportionally to the Corporation's share.

From time to time, the Corporation acquires indefeasible rights of user in international telecommunications circuits that extend over specific time periods. Furthermore, the Corporation may grant such rights in circuits owned by it, or grant such rights that have been previously acquired. The amounts paid or received according to the terms of these transactions are recorded as fixed assets and depreciated over the duration of each agreement.

The Corporation has been designated by the Government of Canada to be the Canadian signatory to the International Telecommunications Statellite Organization (Intelsat) and the International Maritime Satellite Organization (Inmarsat). Periodically, each signatory's ownership share is adjusted to conform to its percentage of total use of the system or any other percentage elected within the terms of the agreements. The Corporation's ownership share is reported in fixed assets and depreciated in accordance with the fixed assets depreciation policy.

(b) Allowance for funds used during construction

The rate applied in determining the allowance for funds used during major construction projects is based principally on the interest rate established by the Minister of Finance for medium-term Government loans to Crown corporations. This allowance is accounted for as income during the construction period.

(c) Depreciation of fixed assets

Fixed assets are depreciated over the estimated service lives of the assets, using the straight-line method.

When depreciable assets are taken out of service, their net book value, less salvage, is charged to depreciation. When other assets are taken out of service, any resulting gain or loss is reflected in income.

In the event of a satellite launch failure or breakdown of an orbiting satellite, the costs are depreciated over the life of the group of satellites.

(d) Operating revenues

—Public services
Revenues from international public services (telephone, telex and telegraph) rendered through the Corporation's telecommunications network represent the amounts billed to Canadian subscribers by domestic carriers and amounts received or due from foreign administrations for the routing of overseas traffic. Estimates are included to provide for that portion of revenues which domestic carriers and foreign administrations have not yet reported to the Corporation at the end of the year. Public service revenues are also derived from leasing circuits to foreign carriers for routing their traffic through Canada.

—Other services
Revenues from other services are derived primarily fron leasing circuits to private users.

—Share of Intelsat and Inmarsat revenues
The Corporation's share of Intelsat and Inmarsat revenue represents its share of revenues from the international tele communications satellite system as well as from the inter national maritime satellite system.

(e) Carriers' share of revenues and other realization costs

—Carriers' share of revenues
This represents amounts owing to domestic carriers an foreign administrations for their part in routing telecom munications traffic.

—Other realization costs

These costs include:

- the Corporation's voluntary contribution to developin Commonwealth Telecommunications Organisatio partners in accordance with the 1983 financial agre ment;
- the Corporation's share of the operating costs of th international telecommunications satellite system an the international maritime satellite system, excludin depreciation, which amounted to $1.7 million for th period of 93 days ended April 3, 1987 ($6.2 million fo the year ended December 31, 1986).

(f) Foreign currency translation

Assets, liabilities, revenues and expenses arising from foreig currency transactions are translated into Canadian dollars a the exchange rates at the time of the transaction, excep when the transaction is hedged.

When a purchase or sale of goods or services in a foreign cu rency is hedged before the transaction, the Canadian doll price of such goods or services is established by the terms the hedge. If the hedge is incomplete as a result of havi entered into a contract involving a foreign currency oth than that of the transaction and the Canadian dollar, t price of the goods or services is first established by the term of the foreign exchange contract and then translated in Canadian dollars by using the exchange rate of that inte mediate currency at the time the transaction occurred.

When a purchase or sale of goods or services in a foreign cu rency is hedged after the transaction, completely or in pa the amount in Canadian dollars of the payable or receivab is restated according to the terms of the foreign exchan contract constituting the hedge. The difference thus reco nized is reflected in income as a gain or loss on forei exchange.

As at the end of a financial year, monetary items denom nated in foreign currencies are adjusted to reflect t exchange rates in effect as at the date of the balance shee For items hedged by way of forward exchange contracts, t difference thus recognized is deferred. The gain or loss reco nized on other items is reflected in current earnings as a ga or loss on foreign exchange, except for that portion whi relates to monetary items with a fixed or ascertainable li extending beyond one year from the end of the financial yea In these cases, the gain or loss is deferred and amortized ov the remaining life of the related monetary item using t straight-line method. The unamortized balance of t deferred gain or loss on foreign exchange is recorded in t balance sheet as a deferred charge. The effect of the forwa exchange contracts on the long-term debt is recorded as element of long-term debt.

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
APRIL 3, 1987—*Continued*

Commitments in foreign currencies are translated into Canadian dollars at the exchange rates in effect as at the date of the balance sheet, except when they are hedged in which case the terms of the foreign exchange contracts are used.

(g) Pension plans

All employees of the Corporation are covered by the pension plans administered by the Government of Canada. Employees and the Corporation are required to contribute to the cost of the plans for current service. These contributions represent the total liability of the Corporation in this matter and are accounted for on a current basis.

(h) Retirement benefits

Retiring employees are paid a benefit equivalent to one half of accumulated unused sick leave days up to March 31, 1981, with an additional credit of five days for every year of service after that date, calculated at the salary level in effect at the time of retirement. The cost of the benefit is expensed in the year in which it is earned by employees.

3. Fixed assets

(a) The main classes of fixed assets are as follows:

	April 3, 1987			December 31, 1986
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	4,729		4,729	4,814
Buildings and leasehold improvements	49,420	19,801	29,619	29,744
Furnishings	10,723	5,788	4,935	4,559
Cable systems	95,061	30,044	65,017	65,654
Terminal, transmission and switching equipment	206,848	95,558	111,290	114,896
International satellite systems space segment (Intelsat-Inmarsat)	55,195	35,028	20,167	20,025
Other plant and equipment	29,512	17,513	11,999	12,230
Construction in progress	51,809		51,809	48,796
	503,297	203,732	299,565	300,718

(b) Fixed assets owned outright by the Corporation or owned jointly with other telecommunications entities are as follows:

	April 3, 1987			December 31, 1986
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Owned outright	307,691	133,889	173,802	175,714
Owned jointly (Corporation's share)	195,606	69,843	125,763	125,004
	503,297	203,732	299,565	300,718

(c) For depreciation purposes, the estimated service lives of the main classes of fixed assets are as follows:

	Number of years
Buildings and related equipment	15 – 40
Leasehold improvements	over the term of the lease
Furnishings	8 – 10
Cable systems	over the term of the agreement
Terminal, transmission and switching equipment	5 – 15
International satellite systems space segment (Intelsat-Inmarsat)	6 – 12
Other plant and equipment	1 – 25

(d) As at April 3, 1987, construction in progress included an amount of $32,984,000 ($33,065,000 as at December 31, 1986) for the international satellite systems space segment (Intelsat-Inmarsat).

(e) As at April 3, 1987, the Corporation's ownership share in Intelsat was 2.683107 percent (2.362596 percent as at December 31, 1986) and its ownership share in Inmarsat was 2.17898 percent (4.35796 percent as at December 31, 1986).

4. Deferred charges

Unamortized deferred charges include:

	April 3, 1987	December 31, 1986
	(in thousands of dollars)	
Unrealized loss (gain) on foreign exchange	(319)	2,261
Interconnection costs relating to the Toronto International Center	414	482
	95	2,743

5. Long-term debt

As at April 3, 1987, the Corporation's long-term debt comprised loans from the Government of Canada bearing interest at rates ranging from 3½ percent to 5 percent, and of amounts owing to the prime contractors of the ANZCAN cable system bearing interest at the rate of 8¾ percent payable in pounds sterling and in United States dollars.

The Corporation has entered into agreements with the two prime contractors of the ANZCAN project whereby 15 percent of contract costs have been paid, and the balance is payable in 17 semi-annual installments which started with the completion of construction in 1985. According to the terms of one of the agreements, payments by the Corporation to the prime contractor are secured by means of bills of exchange drawn by the latter and accepted by the Corporation.

As described in Note 10(b), the Corporation has entered into forward exchange contracts to protect itself against fluctuations of the pound sterling and of the United States dollar. The effect of this protection has been recorded as an element of long-term debt.

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
APRIL 3, 1987—*Continued*

As at April 3, 1987, the details of the long-term debt were as follows:

Maturities	Loans from Government of Canada	Amounts owing to the prime contractors of the ANZCAN project	Effect of forward exchange contracts	Total
	(in thousands of dollars)			
1987 (272 days)	157	8,012	360	8,529
1988	325	8,012	209	8,546
1989	234	8,012	278	8,524
1990	135	8,012	347	8,494
1991	140	8,012	416	8,568
1992-98	1,037	11,896	750	13,683
	2,028	51,956	2,360	56,344
Portion due within one year	318	8,012	360	8,690
	1,710	43,944	2,000	47,654

6. Amount reimbursed to Commonwealth Telecommunications Organisation partners

The Commonwealth Telecommunications Organisation Financial Agreement of 1973 was legally terminated, retroactive to March 31, 1983, when the governments of all 26 member countries completed the signing formalities. During the year ended December 31, 1986, partnership accounts were finalized to March 31, 1983. As final settlement of its account under this Agreement, the Corporation reimbursed in that year $9,856,000, of which $1,915,000 had been accounted for in previous years. The difference of $7,941,000 was charged to earnings for the year ended December 31, 1986. Of this amount, $3,819,000 was in respect of the year ended March 31, 1983 and $4,122,000 of the year ended March 31, 1982.

The Corporation also paid interest in the amount of $2,233,000 which was included under Financial charges — Other interest for the period ended December 31, 1986.

7. Other income—Net

	93 days ended April 3, 1987	Year ended December 31, 1986
	(in thousands of dollars)	
Interest from temporary investments	2,129	7,951
Gain on disposal of temporary investments	356	5,787
Other interest	58	1,237
Allowance for funds used during construction	262	971
Gain on disposal of assets		109
Gain (loss) on foreign exchange	1,083	(2,278)
Other	351	1,315
	4,239	15,092

8. Financial charges

	93 days ended April 3, 1987	Year ended December 31, 1986
	(in thousands of dollars)	
Interest on long-term debt	1,220	5,504
Interest on long-term receivables	(186)	(829)
Other interest	208	2,418
	1,242	7,093

9. Income tax

The Corporation is subject to federal income tax.

Deferred income tax results principally from timing differences between depreciation of fixed assets for accounting and income tax purposes.

Income tax expense comprises:

	93 days ended April 3, 1987	Year ended December 31, 1986
	(in thousands of dollars)	
Current	21,449	58,809
Deferred	(2,860)	(2,829)
	18,589	55,980

10. Commitments

(a) Construction in progress

As at April 3, 1987, the estimated cost of completing construction projects, planned and in progress, amounted to approximately $241,500,000, of which $31,340,000 relates to the remaining of the year ending December 31, 1987. Contractual commitments outstanding as at April 3, 1987 amounted to approximately $33,336,000.

(b) Forward exchange contracts

As a result of the Corporation's participation in the ANZCAN project, the Corporation must make payments of principal and interest to a prime contractor in pounds sterling.

To protect itself against this foreign currency exposure, the Corporation has entered into forward exchange contracts with two Canadian chartered banks to buy a total of 44,678,000 pounds sterling. The balance of amounts involved under the contracts, estimated to cover construction costs and interest charges, is hedged in United States dollars as follows:

Maturities	Pounds sterling	United States dollars
	(in thousands)	
1987 (272 days)	5,459	8,964
1988	5,151	8,522
1989	4,842	8,079
1990	4,533	7,627
1991	4,224	7,166
1992-93	5,757	9,864
	29,966	50,222

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
APRIL 3, 1987—*Concluded*

Furthermore, to protect itself against fluctuations of the United States dollar, the Corporation entered into forward exchange contracts maturing in 1987 to purchase 8,961,000 United States dollars at a cost of 12,023,000 Canadian dollars.

(c) Long-term leases

The Corporation is a party to long-term leases covering properties and facilities. The aggregate minimum annual rentals which will be paid in subsequent years are:

	(in thousands of dollars)
1987 (272 days)	16,347
1988	21,854
1989	17,052
1990	14,466
1991	10,633
1992-97	5,512

Rental expenses for properties and facilities which were charged to the period of 93 days ended April 3, 1987 amounted to $4,072,000 ($18,717,000 for the year ended December 31, 1986).

(d) Agreement with the Department of Transport

Under the terms of an agreement between the Corporation and the Department of Transport, the Corporation charters the cableship/icebreaker C.C.G.S. John Cabot on a cost reimbursement basis for periods of actual usage. This agreement is cancellable on 12 months notice. The Corporation incurred a cost under this agreement of $3,023,000 during the period of 93 days ended April 3, 1987 ($5,948,000 for the year ended December 31, 1986).

(e) Intelsat and Inmarsat commitments

The Corporation's share of Intelsat's and Inmarsat's outstanding commitments was respectively $28,065,000 and $9,715,000 based on their financial statements as at March 31, 1987.

11. Contingencies

(a) Retirement compensation benefit

Prior to November 1, 1974, the Corporation provided a post-retirement life insurance plan for its retiring employees. On that date, the plan was replaced by a retirement compensation benefit for all employees on staff at the time. The cost of this benefit is recognized in the accounts in the year in which payments are made. As at April 3, 1987, the maximum liability of the Corporation under this plan, should all entitled employees retire while in the service of the Corporation, amounted to $1,318,000 ($1,385,750 as at December 31, 1986).

(b) Terms of contracts, agreements and arrangements

Certain contracts, agreements and arrangements entered into by Teleglobe Canada may be terminated and new ones may therefore have to be negotiated, or some terms may have to be renegotiated as a result of the sale of the Corporation's undertaking as mentioned in Notes 1 and 12. No provision has been made in these financial statements for any adverse effect such renegotiations may have on the new owner.

12. Privatization of the Corporation

On April 2, 1987, the Corporation created a wholly-owned subsidiary under the corporate name of Teleglobe Canada Inc., and subscribed to 100 common shares for a cash consideration of $100.

On April 3, 1987, the Corporation transferred to Teleglobe Canada Inc., its undertaking, fixed assets, and nearly all other assets including its rights by virtue of contracts, agreements and arrangements and Teleglobe Canada Inc. assumed certain of the Corporation's obligations, as follows:

At book value

	(in thousands of dollars)
Cash or equivalent	1,636
Accounts receivable	100,797
Prepaid expenses	1,528
Long-term receivables	7,100
Deferred charges	95
	111,156
Accounts payable	95,589
Long-term debt (including short-term portion)	54,316
Deferred credits	5,860
	155,765
	(44,609)
At 140% of net book value	
Fixed assets	419,391
	374,782

As consideration, the Corporation received a non-interest bearing promissory note in an aggregate principal amount of $143,382,433 payable one year and one day following demand, 1,000 special redeemable shares at an issue and stated capital value of $1,000, and 233,228,000 common shares at an issue and stated capital value of $231,397,879.

Also on April 3, 1987, but consecutively to the above-mentioned transfer, the Corporation sold to Memotec Data Inc. the promissory note and the common shares of Teleglobe Canada Inc. at a cash price of $488,268,000, subject to adjustments according to the provisions of the purchase and sale agreement concerning guaranties and commitments given by both parties. The Corporation proposes to transfer the special shares of Teleglobe Canada Inc. to the Government of Canada, without consideration. These shares will entitle the holder thereof to receive, on or about December 31, 1987, a dividend of $16,567,273 as deemed excess profits, as defined, earned between April 4 and December 31, 1987.

The transfer of fixed assets has resulted in a recapture of capital cost allowances previously deducted for income tax purposes and in a capital gain. The sale of securities to Memotec Data Inc. also resulted in a capital gain. The resulting income tax thereon is estimated at approximately $113,000,000.

The Corporation intends to pay its income tax and loans from the Government of Canada before the due dates and to remit its surplus cash on hand to the Government of Canada.

The Teleglobe Canada Reorganization and Divestiture Act, on days to be fixed by proclamation, will change the name of the Corporation to TH (1987) and bring about its dissolution.

TELEGLOBE CANADA—*Continued*

AUDITOR'S REPORT

TO THE PRESIDENT OF THE TREASURY BOARD

I have examined the balance sheet of Teleglobe Canada as at December 31, 1986 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Teleglobe Canada Act and regulations and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 20, 1987

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

ASSETS	1986	1985
Current		
Cash and temporary investments, at cost (market value December 31, 1986—$94,489 December 31, 1985—$109,333)	92,909	106,692
Accounts receivable	96,723	93,884
Prepaid expenses	1,827	2,056
	191,459	202,632
Fixed assets (Note 3)	300,718	308,638
Other assets		
Long-term receivables	7,493	8,937
Deferred charges (Note 4)	2,743	4,707
	10,236	13,644
	502,413	524,914

LIABILITIES	1986	1985
Current		
Accounts payable	89,427	89,521
Income tax payable	13,406	8,454
Portion of long-term debt due within one year (Note 5)	9,371	9,955
	112,204	107,930
Long-term debt (Note 5)	50,363	60,491
Deferred credits		
Income tax (Note 9)	43,963	46,792
Other	5,580	2,348
	49,543	49,140
EQUITY OF CANADA		
Retained earnings	290,303	307,353
	502,413	524,914

Approved by the Board:

RONALD MONTCALM
Director

MICHAEL E. PHELPS
Director

JEAN-CLAUDE DELORME
President and Chief Executive Officer

TELEGLOBE CANADA—*Continued*

INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Revenues		
Public services	779,380	649,127
Other services	14,213	12,336
Share of Intelsat and Inmarsat revenues	19,860	17,167
	813,453	678,630
Carriers' share of revenues and other realization costs	539,663	438,174
Operating revenues	273,790	240,456
Operating expenses		
Salaries and benefits	57,272	55,273
Maintenance and rental	45,463	41,133
Depreciation	33,555	33,400
Other expenses	18,628	19,363
	154,918	149,169
Amount reimbursed to Commonwealth Telecommunications Organisation partners (Note 6)	7,941	
	162,859	149,169
Operating income	110,931	91,287
Other income—Net (Note 7)	15,092	13,717
	126,023	105,004
Financial charges (Note 8)	7,093	5,209
Income before income tax	118,930	99,795
Income tax (Note 9)	55,980	46,566
Net income	62,950	53,229
Retained earnings at beginning of year	307,353	362,182
	370,303	415,411
Amount remitted to the Government of Canada	80,000	108,058
Retained earnings at end of year	290,303	307,353

CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Cash provided by (used for) operations		
Net income	62,950	53,229
Items not affecting cash		
Depreciation	33,555	33,400
Increase (Decrease) in other deferred credits	3,232	(137)
Amortization of unrealized losses on foreign exchange	835	1,772
Deferred income tax	(2,829)	1,921
Allowance for funds used during construction	(971)	(3,817)
Gain on disposal of assets	(109)	(248)
Changes in working capital items*	2,238	12,341
	98,901	98,461
Cash provided by (used for) financing		
Proceeds from long-term debt		2,808
Reimbursement of long-term debt	(9,851)	(9,753)
	(9,851)	(6,945)
Cash provided by (used for) investments		
Acquisition of fixed assets	(26,034)	(22,236)
Proceeds from disposal of fixed assets	1,867	16,173
Deferred charges		(1,250)
Decrease in long-term receivables	1,334	1,308
Increase in long-term receivables		(426)
	(22,833)	(6,431)
Amount remitted to the Government of Canada	(80,000)	(108,058)
Cash and temporary investments		
Decrease	13,783	22,973
Balance at beginning of year	106,692	129,665
Balance at end of year	92,909	106,692

* Excluding cash, temporary investments and the portion of long-term debt and receivables due within one year.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986

1. Authority and activities

Teleglobe Canada, created by the Teleglobe Canada Act, is mandated to establish, maintain and operate Canada's international telecommunication services and to coordinate these services with those of other countries.

2. Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The Corporation follows the significant accounting policies summarized below:

(a) Fixed assets

Fixed assets are stated at acquisition cost, which includes salaries, benefits and certain overhead costs related to construction activities. In addition, for major capital projects, an allowance for funds used during construction is included.

Jointly-owned fixed assets are accounted for proportionally to the Corporation's share.

From time to time, the Corporation acquires indefeasible rights of user for international telecommunications circuits that extend over specific time periods. Furthermore, the Corporation may grant such rights on circuits owned by it, or grant such rights that have been previously acquired. The amounts paid or received according to the terms of these transactions are recorded as fixed assets and depreciated over the duration of each agreement.

The Corporation has been designated by the Government of Canada to be the Canadian signatory to the International Telecommunications Satellite Organization (Intelsat) and the International Maritime Satellite Organization (Inmarsat). Periodically, each signatory's ownership share is adjusted to conform to its percentage of total use of the system or any other percentage elected within the terms of the agreements. The Corporation's ownership share is reported in fixed assets and depreciated in accordance with the fixed assets depreciation policy.

(b) Allowance for funds used during construction

The rate applied in determining the allowance for funds used during major construction projects is based principally on the interest rate established by the Minister of Finance for medium-term Government loans to Crown corporations. This allowance is accounted for as income during the construction period.

(c) Depreciation of fixed assets

Fixed assets are depreciated over the estimated service lives of the assets, using the straight-line method.

When depreciable assets are taken out of service, their net book value, less salvage, is charged to depreciation. When other assets are taken out of service, any resulting gain or loss is reflected in income.

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

In the event of a satellite launch failure or breakdown of an orbiting satellite, the costs are depreciated over the life of the group of satellites.

(d) Operating revenues

—Public services
Revenues from international public services (telephone, telex and telegraph) rendered through the Corporation's telecommunications network represent the amounts billed to Canadian subscribers by domestic carriers and amounts received or due from foreign administrations for the routing of overseas traffic. Estimates are included to provide for that portion of revenues which domestic carriers and foreign administrations have not yet reported to the Corporation at end of the year. Public service revenues are also derived from leasing circuits to foreign carriers for routing their traffic through Canada.

—Other services
Revenues from other services are derived primarily from leasing circuits to private users.

—Share of Intelsat and Inmarsat revenues
The Corporation's share of Intelsat and Inmarsat revenues represents its share of revenues from the international telecommunications satellite system as well as from the international maritime satellite system.

(e) Carriers' share of revenues and other realization costs

—Carriers' share of revenues
This represents the amounts owing to domestic carriers and foreign administrations for their part in routing telecommunications traffic.

—Other realization costs

These costs include:

- the Corporation's voluntary contribution to developing Commonwealth Telecommunications Organisation partners in accordance with the 1983 financial agreement;
- the Corporation's share of the operating costs of the international telecommunications satellite system and the international maritime satellite system, excluding depreciation, which amounted to \$6.2 million for the year ended December 31, 1986 (\$5.2 million for year ended December 31, 1985).

(f) Foreign currency translation

Assets, liabilities, revenues and expenses arising from foreign currency transactions are translated into Canadian dollars at the exchange rates at the time of the transaction, except when the transaction is hedged.

When a purchase or sale of goods or services in a foreign currency is hedged before the transaction, the Canadian dollar price of such goods or services is established by the terms of the hedge. If the hedge is incomplete as a result of having entered into a contract involving a foreign currency other than that of the transaction and the Canadian dollar, the price of the goods or services is first established by the terms of the foreign exchange contract and then translated into Canadian dollars by using the exchange rate of that intermediate currency at the time the transaction occurred.

When a purchase or sale of goods or services in a foreign currency is hedged after the transaction, completely or in part, the amount in Canadian dollars of the payable or receivable is restated according to the terms of the foreign exchange contract constituting the hedge. The difference thus recognized is reflected in income as a gain or loss on foreign exchange.

As at the end of a financial year, monetary items denominated in foreign currencies are adjusted to reflect the exchange rates in effect as at the date of the balance sheet. For items hedged by way of forward exchange contracts, the difference thus recognized is deferred. The gain or loss recognized on other items is reflected in current earnings as a gain or loss on foreign exchange, except for that portion which relates to monetary items with a fixed or ascertainable life extending beyond one year from the end of the financial year. In these cases, the gain or loss is deferred and amortized over the remaining life of the related monetary item using the straight-line method. The unamortized balance of the deferred gain or loss on foreign exchange is recorded in the balance sheet as a deferred credit or as a deferred charge. The effect of the forward exchange contracts on the long-term debt is recorded as an element of long-term debt.

Commitments in foreign currencies are translated into Canadian dollars at the exchange rates in effect as at the date of the balance sheet, except when they are hedged in which case the terms of the foreign exchange contracts are used.

(g) Pension plan

All employees of the Corporation are covered by the pension plan administered by the Government of Canada. These employees and the Corporation are required to contribute to the cost of the plan for current service. These contributions represent the total liability of the Corporation in this matter and are accounted for on a current basis.

(h) Retirement benefits

Retiring employees are paid a benefit equivalent to one half of accumulated unused sick leave days up to March 31, 1981, with an additional credit of five days for every year of service after that date, calculated at the salary level in effect at the time of retirement. The cost of the benefit is expensed in the year in which it is earned by employees.

3. Fixed assets

(a) The main classes of fixed assets are as follows:

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	4,814		4,814	4,841
Buildings and leasehold improvements	48,015	18,271	29,744	31,664
Furnishings	10,213	5,654	4,559	4,689
Cable systems	95,368	29,714	65,654	70,278
Terminal, transmission and switching equipment	210,683	95,787	114,896	109,238
International satellite systems space segment (Intelsat-Inmarsat)	49,776	29,751	20,025	24,677
Other plant and equipment	30,534	18,304	12,230	10,889
Construction in progress	48,796		48,796	52,362
	498,199	197,481	300,718	308,638

TELEGLOBE CANADA—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Continued*

(b) Fixed assets owned outright by the Corporation or owned jointly with other telecommunication entities are as follows:

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Owned outright	307,373	131,659	175,714	185,135
Owned jointly (Corporation's share)	190,826	65,822	125,004	123,503
	498,199	197,481	300,718	308,638

(c) For depreciation purposes, the estimated service lives of the main classes of fixed assets are as follows:

	Number of years
Buildings and related equipment	15 – 40
Leasehold improvements	over the term of the lease
Furnishings	8 – 10
Cable systems	over the term of the agreement
Terminal, transmission and switching equipment	5 – 15
International satellite systems space segment (Intelsat-Inmarsat)	6 – 12
Other plant and equipment	1 – 25

(d) As at December 31, 1986, construction in progress included an amount of $33,065,000 ($23,595,000 as at December 31, 1985) for the international satellite systems space segment (Intelsat-Inmarsat).

(e) As at December 31, 1986, the Corporation's ownership share in Intelsat was 2.362596 percent (2.317395 percent as at December 31, 1985) and its ownership share in Inmarsat was 4.35796 percent (3.83692 percent as at December 31, 1985).

4. Deferred charges

Unamortized deferred charges include:

	1986	1985
	(in thousands of dollars)	
Unrealized losses on foreign exchange	2,261	3,837
Interconnection costs relating to the Toronto International Center	482	870
	2,743	4,707

5. Long-term debt

As at December 31, 1986, the Corporation's long-term debt comprises loans from the Government of Canada bearing interest at rates ranging from 3½ percent to 5¾ percent, and amounts owing to the prime contractors of the ANZCAN cable system bearing interest at the rate of 8¾ percent payable in pounds sterling and in United States dollars.

The Corporation has entered into agreements with the two prime contractors of the ANZCAN project whereby 15 percent of contract costs have been paid, and the balance is payable in 17 semi-annual installments which started with the completion of construction in 1985. According to the terms of one of the agreements, payments by the Corporation to the prime contractor are secured by means of bills of exchange drawn by the latter and accepted by the Corporation.

As described in Note 10(b), the Corporation has entered into forward exchange contracts to protect itself against fluctuations of the pound sterling. The effect of this protection has been recorded as an element of long-term debt.

As at December 31, 1986, the details of the long-term debt were as follows:

Maturities	Loans from Government of Canada	Amounts owing to the prime contractors of the ANZCAN project	Effect of forward exchange contracts	Total
	(in thousands of dollars)			
1987	759	7,799	813	9,371
1988	325	7,799	878	9,002
1989	234	7,799	950	8,983
1990	135	7,799	1,023	8,957
1991	140	7,799	1,096	9,035
1992-98	1,037	11,572	1,777	14,386
	2,630	50,567	6,537	59,734
Portion due within one year	759	7,799	813	9,371
	1,871	42,768	5,724	50,363

6. Amount reimbursed to Commonwealth Telecommunications Organisation partners

The Commonwealth Telecommunications Organisation (CTO) Financial Agreement of 1973 was legally terminated, retroactive to March 31, 1983, when the governments of all 26 member countries completed the signing formalities. During the year, partnership accounts were finalized to March 31, 1983. As final settlement of its account under this Agreement, the Corporation reimbursed $9,856,000, of which $1,915,000 had been accounted for in previous years. The difference of $7,941,000 was charged to earnings for the year. Of this amount, $3,819,000 corresponds to the year ended March 31, 1983 and $4,122,000 to the year ended March 31, 1982.

The Corporation also paid interest in the amount of $2,233,000 which was included under Financial charges—Other interest.

7. Other income—Net

	1986	1985
	(in thousands of dollars)	
Interest from temporary investments	7,951	12,315
Gain on disposal of temporary investments	5,787	2,297
Other interest	1,237	1,975
Allowance for funds used during construction	971	3,817
Gain on disposal of assets	109	248
Loss on foreign exchange	(2,278)	(8,183)
Other	1,315	1,248
	15,092	13,717

8. Financial charges

	1986	1985
	(in thousands of dollars)	
Interest on long-term debt	5,504	5,723
Interest on long-term receivables	(829)	(877)
Other interest	2,418	363
	7,093	5,209

TELEGLOBE CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1986—*Concluded*

9. Income tax

The Corporation is subject to federal income tax.

Deferred income tax results principally from timing differences between depreciation of fixed assets for accounting and income tax purposes.

Income tax expense comprises:

	1986	1985
	(in thousands of dollars)	
Current	58,809	44,645
Deferred	(2,829)	1,921
	55,980	46,566

10. Commitments

(a) Construction in progress

As at December 31, 1986, the estimated cost of completing construction projects, planned and in progress, amounted to approximately $254,800,000, of which $44,700,000 relates to the year ending December 31, 1987. Contractual commitments outstanding as at December 31, 1986 amounted to approximately $16,690,000.

(b) Forward exchange contracts

As a result of the Corporation's participation in the ANZCAN project, the Corporation must make payments to a prime contractor in pounds sterling.

To protect itself against this foreign currency exposure, the Corporation has entered into forward exchange contracts with two Canadian chartered banks to buy a total of 44,678,000 pounds sterling. The balance of amounts involved under the contracts, estimated to cover construction costs and interest charges, is hedged in United States dollars as follows:

Maturities	Pounds sterling	United States dollars
	(in thousands)	
1987	5,459	8,964
1988	5,151	8,522
1989	4,842	8,079
1990	4,533	7,627
1991	4,224	7,166
1992-93	5,757	9,864
	29,966	50,222

(c) Long-term leases

The Corporation is a party to long-term leases covering properties and facilities. The aggregate minimum annual rentals which will be paid in subsequent years are:

	(in thousands of dollars)
1987	14,588
1988	14,090
1989	9,313
1990	6,752
1991	2,919
1992-95	3,584

Rental expenses for properties and facilities which were charged to the year ended December 31, 1986 amounted to $18,717,000 ($16,351,000 for the year ended December 31, 1985).

(d) Agreement with the Department of Transport

Under the terms of an agreement between the Corporation and the Department of Transport, the Corporation charters the cableship/icebreaker C.C.G.S. John Cabot on a cost reimbursement basis for periods of actual usage. This agreement is cancellable on 12 months notice. The Corporation incurred a cost under this agreement of $5,948,000 during the year ended December 31, 1986 ($5,408,000 for the year ended December 31, 1985).

(e) Intelsat and Inmarsat commitments

As at December 31, 1986, the Corporation's share of Intelsat's and Inmarsat's outstanding commitments was respectively $22,374,000 and $21,897,000 based on their financial statements as at December 31, 1986.

11. Contingency

Retirement compensation benefits

Prior to November 1, 1974, the Corporation provided a post-retirement life insurance plan for its retiring employees. On that date, the plan was replaced by a retirement compensation benefit for all employees on staff at the time. The cost of this benefit is recognized in the accounts in the year in which payments are made. As at December 31, 1986, the maximum liability of the Corporation under this plan, should all entitled employees retire while in the service of the Corporation, amounted to $1,385,750 ($1,597,000 as at December 31, 1985).

12. Privatization of the Corporation

On February 11, 1987, the Minister of State (Privatization) announced the decision of the Government to dispose of its investment in the Corporation to Memotec Data Inc. The divestiture will require a signed purchase agreement and necessary parliamentary approval pursuant to the Financial Administration Act through the passage of the Teleglobe Canada Reorganization and Divestiture Act (Bill C-38).

It is estimated that the ultimate consideration to the Government from the sale of its investment in the Corporation will be $608.3 million to be satisfied as follows:

(a) $488.3 million in cash from the purchaser;

(b) $102.0 million cash on hand within the Corporation at the time of sale;

(c) the balance of $18 million in cash from the purchaser, this being the estimated excess profits, as defined, for the nine month period ending December 31, 1987.

Direct costs of the sale are estimated at $7 million, and a $10 million contingency reserve will be set up to provide for potential non-federal taxes and other possible liabilities.

The income tax payable by the Corporation in respect of the divestiture cannot be reasonably estimated at this time.

SUMMARY PAGE

VANCOUVER PORT CORPORATION

MANDATE

Administration, management and control of the Vancouver Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Vancouver Port Corporation was established on July 1, 1983, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Vancouver is the busiest port in Canada. In 1986, 57.6 million tonnes of cargo passed through the port. Coal and grain are the most important commodities; however, sulphur, potash and forestry products are growing in importance.

CORPORATION DATA

HEAD OFFICE	1900 Granville Square 200 Granville Street Vancouver, British Columbia V6C 2P9
STATUS	— Schedule C, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 6.2(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Francis J. MacNaughton
CHAIRMAN	Hector D. Perry
AUDITOR	Thorne Ernst & Whinney

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984	6 months to Dec. 31, 1983
At the end of the period				
Total Assets	236.9	242.7	221.0	206.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada*	80.8	81.0	81.2	81.5
Equity of Canada	116.2	119.0	98.6	81.8
Cash from Canada in the period				
— budgetary**	0.5	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

* Excludes $27.4 million in accrued interest owed to Canada.

** Takes no account of special contributions to Canada in 1986 of $23.3 million.

VANCOUVER PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE JOHN CROSBIE, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Vancouver Port Corporation as at December 31, 1986 and the statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Thorne Ernst & Whinney
Chartered Accountants

Vancouver, Canada
February 23, 1987

BALANCE SHEET AS AT DECEMBER 31, 1986
(in thousands of dollars)

ASSETS	1986	1985
Current Assets		
Cash	306	1,087
Investments (Note 3)	39,107	36,054
Accounts receivable	5,170	9,488
Materials and supplies	236	778
	44,819	47,407
Investments (Note 3)	46	9,472
Long-Term Receivables (Note 4)	7,856	8,223
Property and Equipment (Note 5)	184,187	177,605
	236,908	242,707

LIABILITIES AND EQUITY OF CANADA	1986	1985
Current Liabilities		
Accounts payable and accrued liabilities	3,599	7,892
Grants in lieu of municipal taxes	5,187	3,612
Deferred revenues	2,781	2,834
	11,567	14,338
Accrued Employee Benefits	1,106	1,203
Loans from Canada (Note 6)	108,019	108,204
	120,692	123,745
Equity of Canada		
Contributed capital	7,733	7,733
Contribution to Canada (Note 9)	(23,331)	
Retained earnings	131,814	111,229
	116,216	118,962
	236,908	242,707

Commitments (Note 8)

Approved by the Board:

HECTOR D. PERRY
Chairman

RODNEY A. SNOW
Director

VANCOUVER PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
(in thousands of dollars)

	Six Months Ended June 30, 1986	Six Months Ended December 31, 1986	Year Ended December 31, 1986	Year Ended December 31, 1985
Operating revenue, gross	57,105	21,436	78,541	104,349
Less service contractors	34,541		34,541	63,138
Operating revenue, net (Note 7)	22,564	21,436	44,000	41,211
Operating and administrative expenses			18,147	16,424
Grants in lieu of municipal taxes			5,097	4,265
Depreciation			6,225	4,704
			29,469	25,393
Income from operations			14,531	15,818
Investment income			5,192	4,895
Interest expense on loans from Canada			(338)	(350)
			4,854	4,545
Income before unusual item			19,385	20,363
Adjustment of grants in lieu of municipal taxes			1,200	
Net income			20,585	20,363
Retained earnings at beginning of the year			111,229	90,866
Retained earnings at end of year			131,814	111,229

STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE YEAR ENDED DECEMBER 31, 1986
(in thousands of dollars)

	1986	1985
Cash provided by (used for)		
Operations		
Net income	20,585	20,363
Items not affecting cash		
Depreciation	6,225	4,704
Other	(1,555)	178
Changes in non-cash components of working capital	2,089	1,029
	27,344	26,274
Financing activities		
Capital grants	499	
Loans from Canada currently payable	(185)	(173)
	314	(173)
Investment activities		
Additions to property and equipment	(13,375)	(18,815)
Reduction to property and equipment on cost recovery		3,947
Increase in long-term receivables		(3,947)
Sale of Canada Bonds	10,897	
Other	423	336
	(2,055)	(18,479)
Contribution to Canada (Note 9)	(23,331)	
Increase in cash resources	2,272	7,622
Cash resources at beginning of year	37,141	29,519
Cash resources at end of year	39,413	37,141

(Cash resources are defined to include cash and investments)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986

1. General

The Vancouver Port Corporation (the Corporation) was established effective July 1, 1983 as a local port corporation pursuant to the Canada Ports Corporation Act and is named as a Crown corporation in Schedule C, Part II of the Financial Administration Act. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and operate the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the Canada Ports Corporation Act.

2. Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

(a) Property and equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	5 years

(b) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employee and the Corporation. Although the plan is a defined benefit plan, the contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

(c) Insurance

The Corporation assumes substantially all risks against fire and property damage, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the period incurred.

(d) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

(e) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

3. Investments

Current investments are in Government of Canada treasury bills and at December 31, 1986 and 1985 the market value of the treasury bills approximated carrying value. Long-term investments are in Government of Canada bonds which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. At December 31, 1986 the market value of the bonds was $48,700 (1985, $10,526,300).

VANCOUVER PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986—*Concluded*

4. Long-term receivables

	1986	1985
	(in thousands of dollars)	
Non-interest bearing agreement with B.C. Rail, due as and when rail trackage is constructed on Roberts Bank causeway or April 1, 1994, whichever is earlier	3,947	3,947
Long-term agreement for sale of No. 1 Elevator, bearing interest at 6⅝% per annum, payable in blended annual instalments of $462,916 maturing December 31, 1996	3,309	3,537
Less: current portion	(244)	(228)
	3,065	3,309
Long-term agreement for sale of No. 3 elevator, bearing interest at 5¾% per annum, payable in annual instalments of $117,720 plus interest maturing August 1, 1994	942	1,060
Less: current portion	(118)	(118)
	824	942
Other	20	25
	7,856	8,223

5. Property and equipment

	1986			1985
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	76,291		76,291	75,135
Dredging	366	166	200	150
Berthing structures	51,251	21,937	29,314	27,621
Buildings	43,714	8,821	34,893	11,850
Utilities	12,488	4,761	7,727	6,161
Roads and surfaces	29,208	13,829	15,379	12,381
Machinery and equipment	26,192	8,225	17,967	14,720
Office furniture and equipment	724	567	157	71
Projects under construction	2,259		2,259	29,516
	242,493	58,306	184,187	177,605

6. Loans from Canada

	1986	1985
	(in thousands of dollars)	
Interest bearing loan at 7.5% repayable in blended annual instalments maturing December 31, 2000	4,333	4,506
Less: current portion	(185)	(173)
	4,148	4,333
Non-interest bearing loan with an indefinite due date	76,494	76,494
Accrued interest not due and payable	27,377	27,377
	108,019	108,204

The non-interest bearing loan and accrued interest not due and payable were transferred to the Corporation by Canada Ports Corporation effective July 1, 1983. This loan replaced an interest bearing loan of the same amount on which interest of $27,377,000 had accrued to December 31, 1980.

Principal repayment requirements over the next five years amount to $185,000 in 1987, $199,000 in 1988, $214,000 in 1989, $230,000 in 1990, and $248,000 in 1991.

7. Operating revenue, Net

The Corporation entered into new Terminal Services contracts during 1986 for terminals operated by the Corporation. Under the old contracts all revenues generated on these terminals were recorded by the Corporation as operating revenue with payments for the services of the service contractors recorded as operating expense. Under the new contracts revenues now accruing directly to the service contractors are not shown as revenue or expense in the Corporation's financial statements.

8. Commitments

At December 31, 1986 the estimated cost of completing all approved capital projects was $20 million of which the Corporation had contractual obligations at that date for $1.1 million.

The Corporation has long-term lease obligations of varying durations to 1991 for office accommodation aggregating $3,152,000 with annual payments in each of the five years of: 1987, $756,000; 1988, $741,000; 1989, $662,000; 1990, $662,000; and 1991, $331,000.

9. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown Corporations.

In addition to the loans from Canada disclosed in Note 6, the Corporation paid $1,599,000 (1985, $1,974,000) to Canada Ports Corporation as its share of that Corporation's operating expenses and paid to the Government of Canada $23,331,000 representing the Corporation's share of the contributions requested of Ports Canada by the Government of Canada under the cash recovery program. The Corporation has been requested to consider declaring a dividend of 30% of 1986 net income, payable to the Government of Canada by March 31, 1987.

SUMMARY PAGE

VIA RAIL CANADA INC.

MANDATE

To manage and provide safe, efficient, effective and economic rail passenger service in Canada to meet the needs of the travelling public.

BACKGROUND

In accordance with contracts with the Minister of Transport, VIA Rail operates inter-city, transcontinental, regional and remote passenger train services over CN and CP railway tracks.

CORPORATION DATA

HEAD OFFICE	2 Place Ville-Marie, Montreal, Quebec H3B 2G6
STATUS	— Schedule C, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1977; under the *Canada Business Corporations Act*. The Minister of Transport acquired all common shares on behalf of the Crown on April 1, 1978.
CHIEF EXECUTIVE OFFICER	Denis de Belleval
CHAIRMAN	Lawrence Hanigan
AUDITOR	Raymond, Chabot, Martin, Paré & Associates

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1986	1985	1984 (restated)	1983
At the end of the year				
Total Assets	971	899	750	652
Obligations to the private sector	4	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	743	712	603	532
Cash from Canada in the year				
— budgetary	506	631	474	598
— non-budgetary	nil	nil	nil	nil

VIA RAIL CANADA INC.

RESPONSIBILITY FOR PREPARATION AND INTEGRITY OF FINANCIAL STATEMENTS

The management of VIA is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of VIA and the results of its operations.

To fulfill its responsibility, VIA maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by internal auditors and by Raymond, Chabot, Martin, Paré during the examination of the financial statements.

The Audit Committee of the Board of Directors meets periodically with the internal and external auditors, and with management to approve the scope of audit work and to assess reports on audit work performed. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors upon their recommendation.

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF TRANSPORT

We have examined the balance sheet of VIA Rail Canada Inc. as at December 31, 1986 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, we have examined the transactions that came to our notice in the course of the above-mentioned examination of the financial statements of VIA Rail Canada Inc. for the year ended December 31, 1986, to determine whether they were in accordance with Part XII of the Financial Administration Act, the regulations, the charter and by-laws of the Corporation and any directives given to the Corporation pursuant to the Act. Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Raymond, Chabot, Martin, Paré
Chartered Accountants

Montréal, Canada
January 28, 1987

BALANCE SHEET AS AT DECEMBER 31
(in thousands of dollars)

	1986	1985
Current assets		
Cash and short-term deposits		3,896
Accounts receivable	8,435	10,729
Advance on contracts (Note 3)	5,024	4,817
Receivable from the Government of Canada	213,467	173,171
Materials and supplies	24,643	19,481
	251,569	212,094
Long-term assets		
Investment	2,001	
Properties (Note 4)	709,474	678,712
Deferred charges	7,584	7,769
	719,059	686,481
	970,628	898,575

	1986	1985
Current liabilities		
Bank advances	3,786	
Accounts payable and accrued liabilities	208,298	166,835
Income taxes payable (Note 10)	1,088	1,727
Deferred revenue	6,314	5,367
	219,486	173,929
Long-term liabilities		
Deferred investment tax credits (Note 10)	7,882	12,854
	7,882	12,854
SHAREHOLDER'S EQUITY		
Share capital (Note 5)	9,300	9,300
Contributed surplus (Note 6)	744,787	700,587
Retained earnings (deficit)	(10,827)	1,905
	743,260	711,792
	970,628	898,575

See accompanying notes to financial statements.

Signed on behalf of the Board:

GARY T. BRAZZELL
Director and Chairman of the Audit Committee

LAWRENCE HANIGAN
Director and Chairman of the Board

VIA RAIL CANADA INC.—*Continued*

STATEMENT OF INCOME AND DEFICIT
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Revenue		
Passenger	204,055	201,393
Contract (Note 2a)	461,880	523,602
Other	4,640	4,307
	670,575	729,302
Expenses		
Operations and maintenance (Note 2b)	379,456	443,592
Customer and support services	191,062	188,770
General and administrative	59,177	48,229
Depreciation and amortization	58,935	44,112
	688,630	724,703
Income (loss) before income taxes	(18,055)	4,599
Income taxes (recovery) (Note 9)	(5,323)	3,676
Net income (loss)	(12,732)	923
Retained earnings (deficit)		
Balance at beginning of year	1,905	982
Balance at end of year	(10,827)	1,905

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1986	1985
Cash provided by (used in) operating activities		
Net income (loss)	(12,732)	923
Non-cash charges to income		
Depreciation and amortization	58,935	44,112
Losses on retirement of assets	2,777	3,866
	48,980	48,901
Changes in working capital items		
Accounts receivable	2,294	(1,141)
Materials and supplies	(5,162)	(10,392)
Receivable from the Government of Canada	(59,637)	(59,308)
Accounts payable and accrued liabilities	17,136	35,551
Income taxes payable	(639)	238
Deferred revenue	947	2,494
	(45,061)	(32,558)
Cash flow from operations	3,919	16,343
Cash provided by (used in) financing activities		
Capital funding from the Government of Canada	44,200	107,758
Receivable from the Government of Canada	19,341	(98)
Deferred investment tax credits	(4,684)	3,438
	58,857	111,098
Cash provided by (used in) investment activities		
Investment	(2,001)	
Properties	(84,754)	(151,288)
Deferred charges	(7,823)	(2,640)
Changes in working capital items		
Advance on contracts	(207)	3,615
Accounts payable and accrued liabilities	24,327	(619)
	(70,458)	(150,932)
Decrease in cash during the year	(7,682)	(23,491)
Cash at beginning of year*	3,896	27,387
Cash at end of year*	(3,786)	3,896

*Includes bank advances and short-term deposits.
See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986

1. Accounting policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and conform in all material respects with the accounting standards of the International Accounting Standards Committee as they relate to the presentation of historical cost financial information. The significant policies are summarized below:

(a) Revenue recognition

Passenger revenue is recognized when earned. Contract revenue (Note 2a) is recognized on a realized and estimated basis and any changes in the estimates are accounted for in the year of change.

(b) Charges under railway operating agreements

Charges from the contracting railways in respect of the operating agreements (Note 2b) are recorded on an incurred and estimated basis.

These expenditures are subject to adjustment by the Canadian Transport Commission following a review of the actual costs incurred each year by the parties concerned. Adjustments arising from this review are included in the Statement of Income and Deficit in the year in which the resolution occurs.

(c) Materials and supplies

The inventory is valued at weighted average cost for on-board stock, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second-hand, obsolete and scrap materials.

(d) Investment

The Corporation owns 140,279 common shares of Railroad Association Insurance, Ltd. (R.A.I.L.) representing a 4% interest therein accounted for on the cost basis.

(e) Properties

Properties, including those acquired under capital leases are recorded at cost. The costs of refurbishing and rebuilding of rolling stock for the first time are capitalized. These costs are incurred to improve and extend the useful life of the assets concerned. The costs of refurbishing and rebuilding of rolling stock, for a second time, except for major renewals, are charged to operations.

(f) Depreciation and amortization

Depreciation and amortization is calculated on a straight-line basis at rates sufficient to write off properties over their estimated useful lives. The estimated useful lives for significant classes of assets are as follows:

Rolling stock	8 to 30 years
Stations and facilities	20 years
Maintenance buildings	25 years
Machinery, equipment and other fixed assets	3 to 15 years
Office furniture and equipment	3 to 20 years
Leasehold and infrastructure improvements	10 to 38 years

No depreciation is provided for projects in progress.

(g) Deferred charges

Deferred charges are principally comprised of the costs of development of information systems and are being amortized on the straight-line method over periods varying from three to seven years. Accumulated amortization of $35,816,000 (1985—$27,808,000) has been deducted in arriving at the carrying value of the deferred charges.

VIA RAIL CANADA INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986—*Continued*

(h) Leases

Assets recorded under capital leases are amortized on a straight-line basis over the terms of the leases.

All other leases are accounted for as operating leases and the rental costs are accounted for as incurred.

(i) Deferred investment tax credits

In accordance with the cost reduction approach, investment tax credits are deferred and amortized to income over the estimated useful lives of the related assets.

(j) Pensions

The cost of providing pension benefits is determined by actuarial valuations, which allocate to each year of service the applicable portion of total estimated benefits, based on projections of employees' compensation levels to the time of their retirement.

Current service costs include the portion of estimated benefits attributable to services rendered during the current year and are funded as they accrue.

Past service costs are being funded over periods up to twenty-five years having regard for rates recommended by the actuary and approved by the Superintendent of Insurance.

2. Operating agreements

(a) Railway passenger service contract

The Corporation has entered into an agreement with the Government of Canada to provide services, activities and undertakings relating to the provision, management and operation of railway passenger services in Canada.

The agreement also provides that the Minister of Transport and the Corporation shall enter into Subsidiary Service Request Agreements with respect to specified inter-city rail passenger services.

(b) Canadian National Railway Company and Canadian Pacific Limited

The Corporation has operating agreements with the railways for the use of tracks, facilities, train personnel, rolling stock servicing and refurbishing.

Costs incurred under the railway operating agreements, excluding capital expenditures, amounted to $235,986,000 (1985—$400,777,000).

3. Advance on contracts

Advance on contracts represent payments made on capital projects for station upgrading and the purchase of maintenance materials.

4. Properties

	1986	1985
	(in thousands of dollars)	
Land	2,806	391
Rolling stock	517,851	496,751
Stations and facilities	12,526	9,463
Maintenance buildings	90,029	42,884
Machinery, equipment and other fixed assets	9,554	8,231
Office furniture and equipment	21,417	17,593
Leasehold and infrastructure improvements	123,420	133,481
	777,603	708,794
Accumulated depreciation and amortization	(169,848)	(120,218)
	607,755	588,576
Projects in progress	101,719	90,136
	709,474	678,712

At December 31, 1986 the gross value of assets under capital leases included above was $7,235,000 (1985—$5,250,000) and related accumulated amortization thereon amounted to $271,000 (1985—$8,000).

5. Share capital

	1986	1985
	(in thousands of dollars)	
Authorized		
An unlimited number of common shares of no par value		
Issued and fully paid		
93,000 common shares	9,300	9,300

6. Contributed surplus

Contributed surplus represents amounts received or receivable from the Government of Canada for capital expenditures.

7. Lease obligations and commitments

(a) The future minimum rental payments relating to operating leases are as follows:

	(in thousands of dollars)
1987	14,149
1988	12,508
1989	12,060
1990	11,805
1991	12,179
Subsequent year	334,446
	397,147

A significant portion of the leases are for real estate or rental of computer equipment and services.

(b) No obligations under capital leases exist as lease payments applicable to the initial terms have been paid in lump sums at the inception of the leases.

(c) As at December 31, 1986 the Corporation has outstanding commitments mainly relating to the purchase of property and equipment amounting to approximately $34,647,000.

8. Pension plans

(a) The Corporation has retirement benefit plans covering all of its permanent employees, including those transferred from Canadian National Railway Company during the year and in 1985 (Note 11). Under the plans, employees are entitled to benefits at retirement age, based on compensation and length of service.

Actuarial valuations of the pension plans were carried out as at December 31, 1985. Based on these valuations, unfunded liabilities in respect of past service costs at December 31, 1986, excluding any such liability pertaining to the foregoing employees transferred to the Corporation, amounted to approximately $2,402,000.

VIA RAIL CANADA INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986—*Concluded*

(b) Employees transferred from Canadian National Railway Company during the year, and in 1985, will be fully protected to the extent of their benefits accrued under the pension plan of their former employer. Negotiations are continuing concerning the amount of funds to be transferred to cover accumulated benefits up to the dates of transfer.

9. Income taxes

The effective tax rate in the statement of income and deficit varies from the combined Federal and Provincial income tax rate as a result of differences between capital cost allowances and depreciation and amortization expense. No benefits have been recognized in respect of these differences because of uncertainty as to their realization in future accounting periods.

10. Prior period adjustment

As indicated in the Corporation's 1985 financial statements, Revenue Canada was in the process of auditing the Corporation's tax returns for the years ended December 31, 1978 to 1984. This audit has now been completed and assessments have been issued disclosing that no Federal income taxes are payable, due to the utilization of investment tax credits.

Revenue Canada's assessments have influenced the Corporation's Provincial tax position in that certain tax liabilities, previously accounted for as deferred income taxes, are now currently payable. As a result of this revised position, deferred income tax liabilities as at December 31, 1985, have been reduced by $1,727,000, of which $238,000 related to the year then ended; and current income taxes have been increased by a corresponding amount.

11. Related party transactions

VIA Rail Canada Inc. is a Crown Corporation with all of its issued shares owned by the Government of Canada.

In the normal course of business, the Corporation contracts with other Crown Corporations for services which in 1986 amounted to $198,927,000 (1985—$361,912,000). The amounts payable to these Corporations at December 31, 1986 amounted to $52,827,000 (1985—$44,787,000).

During the year, and in 1985, certain rolling stock maintenance and station activities, previously conducted under the operating agreement with Canadian National Railway Company referred to in Note 2(b), have been progressively transferred under the Corporation's direct control. Pursuant to these arrangements certain inventories and properties were acquired during the year for a total consideration of $4,961,000 (1985—$10,808,000). The Corporation also acquired the services of approximately 282 (1985—1,460) former employees of Canadian National Railway Company and entered into various operating leases for the rental of real estate on which the maintenance buildings and certain stations and facilities are located.

12. Subsequent events

As indicated in the Corporation's 1985 financial statements, a National Rail Passenger Transportation Act is expected to be tabled in Parliament. It will establish a legislative basis for the provision of national and commuter rail passenger transportation services. This legislation will change the Corporation's relationship with the Government of Canada, as well as the two freight railways which control the Corporation's essential rights-of-way. The financial impact of the legislation cannot be estimated with any certainty at this time.

PART II

CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS

1. INTRODUCTION TO PART II

This Part responds to the provision in the *Financial Administration Act*, paragraph 153(3)(a) that the Report of the President "shall include a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation."

The information represents the status of Crown corporations and other Canadian government interests as at July 31, 1987, unless otherwise noted.

The individual lists are:

Parent Crown Corporations and their subsidiaries and associates. These are grouped as:

— **subsidiaries held at 100%**, if wholly-owned,

— **subsidiaries held at 50-99%**, if 50% or more of the equity is held by a Crown corporation; or,

— **Associates held at less than 50%** if less than 50% is held. (Generally subsidiaries of subsidiaries are listed only to a second ownership level below the 100% owned category);

Joint Enterprises are those owned by Canada jointly with another level of government, e.g., provincial or municipal;

Mixed Enterprises are those in which ownership is shared by Canada and the private sector;

Other Entities are corporate entities without share capital for which the Government of Canada, directly or through a Crown corporation, has a right pursuant to statute, articles of incorporation, letters patent or by-law, to appoint one or more members of the board of directors or similar governing body.

International Organizations are corporate entities created pursuant to international agreements by which Canada has a right to appoint or elect members to a governing body.

A statistical summary of the number of entities in each of the lists is presented on the next page.

The reader should note that the descriptions of corporate mandates appearing in this Part are intended to convey the essence of those mandates. They are not legal descriptions. Similarly, the description of the government's objective in making investments in these corporations is meant only as a summarization. For further information, the reader is referred to the special Acts, articles of incorporation, or annual reports of the corporations. The government percentage ownership data displayed are based on the number of voting shares.

2. STATISTICAL SUMMARY

As at July 31, 1987

Crown Corporations

• Parent Crown corporations including eight corporations which are exempted from Part XII of the FAA	54*
• Wholly-owned subsidiaries	114
TOTAL	168

Crown Corporations' Investments (direct and indirect)

• Subsidiaries held at 50% or more but less than 100%	31
• Associates held at less than 50%	154
TOTAL	185

Joint and Mixed Enterprises

TOTAL	25**

Other Entities

— Entities without share capital	41

International Organizations

— Entities created pursuant to international agreement	13

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* Includes:

— in process of dissolution

Canadian National (West Indies) Steamships Ltd. and *Canagrex*

Excludes:

Teleglobe Canada — assets sold April 3, 1987

** Includes:

— 12 corporations in which the Superintendent of Bankruptcy has received shares in lieu of a cash levy.

— Canada Development Corporation — remaining shares, sale announced October 8, 1987.

3. THE LISTINGS

3.1. PARENT CROWN CORPORATIONS, WHOLLY-OWNED SUBSIDIARIES, OTHER SUBSIDIARIES AND ASSOCIATES

Notes

1. For corporations scheduled in the *Financial Administration Act* (FAA), the relevant schedule is shown in parentheses immediately following the corporation's name.

2. Under the FAA, a subsidiary is a Crown corporation if it is wholly-owned directly or indirectly by one or more parent Crown corporations.

---

1. Air Canada (C-II)

    Subsidiaries held at 100%
    - Air BC Limited
    - enRoute Card International Inc.
    - enRoute Card Inc.
    - Airtransit Canada
    - Touram Inc.
        - Touram Group Service Inc.

    Subsidiaries held at 50-99%
    - Matac Cargo Ltd. (50%)
    - 153333 Canada Inc. (50%)
    - 152160 Canada Inc. (75%)
        - Air Ontario Inc.

    Associates held at less than 50%
    - Aeronautical Radio, Inc. (1 share)
    - Aerospace Realties (1986) Ltd. (30.3%)
    - Air Cargo Facilities (2.5%)
    - Air Nova (49%)
    - Airlines Clearing House Inc. (1 share)
    - Airlines Reporting Corporation (3.3%)
    - Airline Tariff Publishing Co. (1.5%)
    - Global Travel Computer Holdings Ltd. (34.78%)
    - GPA Group Ltd. (25.98%)
        - Aircraft Finance Limited, Ireland
        - Aircraft Finance Limited, United Kingdom
        - Aviation Finance Limited
        - Air Maple Limited
        - Air Tara Limited
        - Aviation Consultants Limited
        - Avitas Inc. (25%)
        - Elasis B.V.
        - European Expedite Limited, Ireland
        - European Expedite Limited, United Kingdom
        - Extra Executive Transport GmbH (49%)
        - GPA Airbus 320 Limited (50%)
        - GPA Corporation

GPA Europe Limited
GPA Financial Services Limited
GPA Finance Limited
GPA Jetprop Inc.
GPA Fokker 100 Limited (50%)
GPA Fokker 100 (NA) N.V. (50%)
GPA Insurance Brokers Limited
GPA Holdings Limited
GPA Jetprop Limited (50%)
GPA Jetprop Limited
GPA Leasing (NA) N.V.
GPA Midland Limited (51%)
GPA Netherlands B.V.
Guinness Peat Aerospace Limited, Ireland
Guinness Peat Aerospace Limited, United Kingdom
Guinness Peat Aviation Asia Limited
Guinness Peat Aviation (Belgium) N.V.
Guinness Peat Western Limited
Panco Corporation
Transportation Analysis International Limited
Irish Aerospace Limited (50%)
TAI Incorporated
TransTiger Corporation
Innotech Aviation Industries (1986) Ltd. (30.3%)
Innotech Aviation Enterprises Ltd. (66.9%)
Innotech Aviation Inc.
International Aeradio (Caribbean) Limited (nominal)
Société internationale de télécommunications aéronautiques (nominal)
Laxfuel Corporation (nominal)
Lax Two Corp (Nominal)

2. Atlantic Pilotage Authority (C-I)

3. Atomic Energy of Canada Limited (C-I)

4. Bank of Canada (Exempted)

5. Canada Council (Exempted)

6. Canada Deposit Insurance Corporation (C-I)

7. Canada Development Investment Corporation (C-II)

Subsidiaries held at 100%
Cartierville Financial Corporation
Eldorado Nuclear Limited
Eldorado NPI Limited
Eldorado Aviation Limited
Eldorado Resources Limited
119371 Canada Limited
Eldor Resources Limited
Key Lake Mining Corp. (16.6%)
Associates held at less than 50%
Varity Corporation (2.7%)

8. Canada Harbour Place Corporation (C-I)

9. Canada Lands Company Limited (C-I)

    Subsidiaries held at 100%
        Canada Lands Company (Mirabel) Limited
        Canada Lands Company (Le Vieux-Port de Montréal) Limited
        Canada Lands Company (Vieux-Port de Québec) Inc.

10. Canada Mortgage and Housing Corporation (C-I)

11. Canada Museums Construction Corporation Inc. (C-I)

12. Canada Ports Corporation (C-II)

    Subsidiary held at 50-99%
        Ridley Terminals Inc. (90%)

13. Canada Post Corporation (C-I)

14. Canadian Broadcasting Corporation (Exempted)

    Associates held at less than 50%
        Cable North Microwave Limited (1 share)
        Master FM Limited (20%)
        Visnews Limited (33%)
            Viscom International (USA) Limited

15. Canadian Commercial Corporation (C-I)

16. Canadian Dairy Commission (C-I)

17. Canadian Film Development Corporation (Exempted)

18. Canadian Institute for International Peace and Security (Exempted)

19. Canadian Livestock Feed Board (C-I)

20. Canadian National Railway Company (C-II)

    Subsidiaries held at 100%
        Autoport Limited
        The Canada and Gulf Terminal Railway Company
        Canadian National Express Company
        The Canadian National Railways Securities Trust
        Canadian National Steamship Company, Limited
        Canadian National Telegraph Company
        The Great North Western Telegraph Company of Canada (94.54%)
        Canadian National Transfer Company Limited
        Canadian National Transportation, Limited
            Chapman Transport Limited
            Empire Freightways Limited
            Royal Transportation Limited
        Canat Limited
        CN (France) S.A.
        CNM Inc.
            Halifax Industries (Holdings) Limited (33.3%)
            Lakespan Marine Inc. (50%)
            Seabase Limited (15%)

CN Tower Limited
CN Transactions Inc.
Canac Consultants Limited
Canadian National Hotels (Moncton) Ltd.
Canaprev Inc. (50%)
Canaven Limited
CN Exploration Inc.
CN Hotels Inc.
East Yard Development Ltd. (50%)
The Toronto Terminals Railway Company (50%)
EID Electronic Identification Systems Ltd.

Grand Trunk Corporation
Central Vermont Railway, Inc.
Domestic Four Leasing Corporation
Domestic Three Leasing Corporation
Domestic Two Leasing Corporation
Duluth, Winnipeg and Pacific Railway Company
Grand Trunk Land Development Corporation
Grand Trunk Radio Communications, Inc.
Grand Trunk Western Railroad Company
The Belt Railway Company of Chicago (8.33%)
Chicago and Western Indiana Railroad Company (20%)
Trailer Train Company (2.63%)
The Minnesota and Manitoba Railroad Company
The Minnesota and Ontario Bridge Company
Mount Royal Tunnel and Terminal Company, Limited
Northwestel Inc.
Terra Nova Telecommunications Inc.

Subsidiaries held at 50-99%
The Canada Southern Railway Company (50%)
The Canadian Northern Quebec Railway Company (59.7%)
Detroit River Tunnel Company (50%)
The Northern Consolidated Holding Company Limited (71.9%)
The Public Markets, Limited (50%)
The Quebec and Lake St. John Railway Company (89.1%)
Shawinigan Terminal Railway Company (50%)

Associates held at less than 50%
Compagnie de gestion de Matane Inc. (49%)
Computer Sciences Canada, Ltd. (7.87%)
Dome Consortium Investments Inc. (16.66%)
Eurocanadian Shipholdings Limited (18%)
Fort Point Holdings Ltd. (25%)
Halterm Limited (33.3%)
Railroad Association Insurance, Ltd. (7.47%)
Telesat Canada (3.75%)

21. Canadian National (West Indies) Steamships, Ltd. (C-I)*

22. Canadian Patents and Development Limited (C-I)

23. Canadian Saltfish Corporation (C-I)

24. Canadian Wheat Board (Exempted)

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* In process of dissolution

25. Canagrex (C-I)*

26. Cape Breton Development Corporation (C-I)

    Subsidiaries held at 100%
    - Cape Breton Carbofuels Limited
    - Darr (Cape Breton) Limited
    - Dundee Estates Limited

    Subsidiaries held at 50-99%
    - Whale Cove Summer Village Limited (62.5%)

    Associates held at less than 50%
    - Bay Lumber Limited (7%)
    - Haak Conveyor & Manufacturing Limited (42%)
    - Newco Mining Limited (10%)
    - Sun Mountain Development Limited (Cape Breton Ski Club) (4%)
    - 4 M Panga Hotel Co. Limited (45%)

27. Defence Construction (1951) Limited (C-I)

28. Export Development Corporation (C-I)

29. Farm Credit Corporation (C-I)

30. Federal Business Development Bank (C-I)

31. Freshwater Fish Marketing Corporation (C-I)

32. Great Lakes Pilotage Authority, Ltd. (C-I)

33. Halifax Port Corporation (C-II)

34. Harbourfront Corporation (C-I)

    Subsidiaries held at 100%
    - Peter Street Basin Properties Inc.
    - 630370 Ontario Ltd.

    Subsidiaries held at 50-99%
    - Harbourpoint Developments (Harbourfront) Limited
    - Art Gallery at Harbourfront (membership interest)
    - School-By-the-Water (membership interest)

35. International Centre for Ocean Development (C-I)

36. International Development Research Centre (Exempted)

37. Laurentian Pilotage Authority (C-I)

38. Marine Atlantic Inc. (C-I)

    Subsidiaries held at 100%
    - Coastal Transport Ltd.
    - Newfoundland Dockyard Company

39. Mingan Associates Ltd. (C-I) (Inactive)

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* In process of dissolution

40. Montreal Port Corporation (C-II)

41. National Arts Centre Corporation (Exempted)

42. National Capital Commission (C-I)

43. Northern Canada Power Commission (C-I)

44. Pacific Pilotage Authority (C-I)

45. Petro-Canada (C-II)

Subsidiaries held at 100%
- Amauligak Explorations Inc.
- Bent Horn Development Inc.
- Canertech Inc.*
- Petro-Canada Consulting Corporation
- Petro-Canada Enterprises Inc.*
- Petro-Canada Espanola, S.A.
- Petro-Canada International Assistance Corporation (acting parent Crown corporation)
- Petro-Canada Inc.
  - Arctic Pilot Project Inc.
  - Asher American, Inc.
  - Blakeny and Son (1979) Ltd.
  - BP Marketing Canada Limited
  - Canstar Oil Sands Ltd.
  - Fifth Pacific Stations Ltd.
  - GMI Co. (Bahamas) Limited
  - Independent Fuels & Lumber Ltd.*
  - Morrow Fuel Oil Sales Ltd.
  - Northwest Terminals Ltd.
  - Opal Oils Limited
    - Commodore Oils Limited
  - First Pacific Stations Ltd.
  - Second Pacific Stations Ltd.
  - Third Pacific Stations Ltd.
  - Fourth Pacific Stations Ltd.**
  - Pacific Petroleums Limited*
  - Pacific Pipelines, Inc.
  - Petro-Canada Hydrocarbons Inc.
  - Petro-Canada (Barito) Inc.
  - Petro-Canada Chemicals Inc.
  - Petro-Canada Drilling Inc.
  - Petro-Canada Oil & Gas Inc.
  - Petro-Canada Petroleum Marketing Inc.
  - Petro-Canada Petroleum Inc.*
  - Petro-Canada Youth Inc.
  - Depanneurs Le Frigo Ltée.
  - Chatelaine Restaurants Limited
  - St. Laurent Petroleum Inc.
  - Petro-Canada (U.K.) Limited
  - Petroleum Transmission Company
  - Petron Petroleum Ltd.
  - Prairie Leaseholds Ltd.

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* In process of dissolution

** Shares held by Montreal Trust Company in connection with debt issue

Rocair Limited
Servico Limitée/Servico Limited
Wayfare Restaurants Limited
XYCHEM Inc.
103912 Canada Inc.
106616 Canada Inc.
106618 Canada Inc.
106619 Canada Inc.
106620 Canada Inc.
106621 Canada Inc.
146923 Canada Ltd.
146924 Canada Ltd.

Subsidiaries held at 50-99%
Canstar Oil Sands Ltd. (50%)
Keyanaw Oils Sands Ltd. (50%)
Les Huiles Du Royaume Inc. (50%)
Marchand Petroleum (Canada) Inc. (50%)
Panarctic Oils Ltd. (52.73%)
Petro-Canada Centre Inc. (50%)
Petro-Canada Centre Finance Inc.
Sedpex Inc. (50%)
Wapisoo Oil Sands Ltd. (50%)
288564 Alberta Ltd. (50%)

Associates held at less than 50%
Alberta Products Pipeline Ltd. (35%)
Ducharme & Carbone (1981) Inc. (43.8%)
Harvey's Oil Limited (49.9%)
Internationale de Services Industriels et Scientifique, S.A. (27%)
Les Huiles Desroches Inc. (45%)
Les Petroles Sherbrooke Inc. (47%)
McAsphalte Inc. (49%)
Marc Dufresne (1978) Inc. (49.99%)
Northward Development Ltd. (17%)
Perry Fuels Inc. (49%)
Petroles de la Maurice (Canada) Inc. (49.99%)
Petroles M. Miron Inc. (49.9%)
Petroles St. Jean Sur Richelieu Inc. (49%)
Roma Fuels Limited (49%)
Sulconam Inc. (7.6%)
Syncrude Canada Ltd. (17%)
Thermo Page Inc. (49%)
Town & Country Fuels (1980) Inc. (49%)
Westcoast Transmission Company Ltd. (30.8%)
Westcoast Transmission Company (Alberta) Ltd.
Westcoast Transmission Holdings Ltd.
Vancal Properties Ltd.
W.T. Investments Inc.
Westcoast Diversified Industries Ltd.
Westcoast Transmission Company, Inc.
Westcoast Energy Ltd.
Westcoast Petroleum Ltd.
Westcoast Resources Inc.
Dover Petroleum Inc.
Texas Pacific Oil Canada Ltd.
Canadian Roxy Petroleum Ltd.
Island & Coastal Natural Gas Co. Ltd.

Inter B.C. Gas Transmission Ltd.
Saratoga Processing Company Limited
Pacific Northern Gas Ltd.
PNG Marketing Ltd.
Foothills Oil Pipe Line Ltd (50%)
Foothills Pipe Lines Ltd. (30%)
Foothills Pipe Lines (North B.C.) Ltd. (49%)
Foothills Pipe Lines (Yukon) Ltd. (50%)
Foothills Pipe Lines (North B.C.) Ltd. (51%)
Foothills Pipe Lines (South Yukon) Ltd.
Foothills Pipe Lines (North Yukon) Ltd.
Foothills Pipe Lines (South B.C.) Ltd. (51%)
Foothills Pipe Lines (Alta.) Ltd. (51%)
Foothills Pipe Lines (Sask.) Ltd. (51%)
Foothills Engineering Ltd.
113989 Canada Limited (49.9%)
128963 Canada Inc. (49%)
139741 Canada Ltée. (49%)

Subsidiaries held at less than 5% (other interests)
Campbell Resources Inc.
Carnduff Gas Limited
Cheyenne Petroleum Corp. (NPL)
Cynthia Gas Gathering Company Limited
House of Brougham Limited
International Standard Resources Ltd.
Kanata Hotels International Inc.
Manhattan Continental Dev. Corp.
Mascot Gold Mines Ltd.
Montreal Pipe Line Limited
New Nadina Explorations Ltd.
Northwood Pulp and Timber Limited
Oil Spill Response Limited
Pacific Energy Resources Ltd.
Pacific Northern Gas Ltd.
Peace Pipe Line Ltd.
Petrogas Processing Ltd.
Polar Gas Engineering Services Ltd.
Redwater Water Disposal Co.
Riley's Data Share International Ltd.
Rimbey Pipe Line Co. Ltd.
Sultran Ltd.
Toronto Credits Limited
Trans-Northern Pipelines Inc.
Wardean Drilling Co. Limited
204383 Enterprises Inc.
346877 Ontario Ltd.

46. Port of Quebec Corporation (C-II)

47. Prince Rupert Port Corporation (C-II)

48. Royal Canadian Mint (C-I)

49. Saint John Port Corporation (C-II)

50. St. John's Port Corporation (C-II)

51. The St. Lawrence Seaway Authority (C-I)

    Subsidiaries held at 100%
    - The Jacques Cartier and Champlain Bridges Incorporated
    - The Seaway International Bridge Corporation, Ltd.

52. Standards Council of Canada (C-I)

53. Vancouver Port Corporation (C-II)

54. VIA Rail Canada Inc. (C-I)

    Associates held at less than 50%
    - Railroad Association Insurance, Ltd. (4%)

3.2 JOINT AND MIXED ENTERPRISES

These are enterprises with share capital which are owned jointly with other governments and/or other organizations to further common objectives.

Note: Subsidiaries and associates are not listed.

1. Canada Development Corporation

2. Canarctic Shipping Company Limited

3. Cooperative Energy Corporation

4. Lower Churchill Development Corporation Limited

5. Mohawk St. Régis Lacrosse Ltd. (inactive)

6. National Sea Products Ltd.

7. Newfoundland and Labrador Development Corporation Limited

8. North Portage Development Corporation

9. NPM Nuclear Project Managers Canada Inc.

10. N.S. Holdco Ltd.

11. Société Inter-Port de Québec

12. Telesat Canada

13. 125459 Canada Ltd.

Under terms of the *Bankruptcy Act*, the Superintendent of Bankruptcy has received shares in the following corporations:

14. Prestige Poultry Products Ltd.

15. Mount Nansen Mines Ltd.

16. Geoform Designs Inc.

17. Captain Scotts Fish & Chips (1978) Ltd.
18. Romfield Building Corporation Ltd.
19. Dreco Energy Services
20. International Hydrodynamics Co. Ltd.
21. Wilanour Resources Ltd.
22. Blake Resources
23. Totran Services Ltd.
24. House of Brougham Ltd.
25. Equity Capital Investments Ltd.

3.3 OTHER ENTITIES

These are corporate entities without share capital for which the Government of Canada has a right to appoint members to the boards of directors or similar governing bodies.

1. Agricultural Products Board
2. Asia-Pacific Foundation of Canada
3. The Army Benevolent Fund
4. Association for the Export of Canadian Books
5. The Blue Water Bridge Authority
6. Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
7. Buffalo and Fort Erie Public Bridge Authority
8. Calgary Olympic Development Association
9. Canadian Fitness and Lifestyle Research Institute Inc.
10. Canada Grains Council
11. Canadian International Grains Institute
12. Coaching Association of Canada
13. Forest Engineering Research Institute of Canada
14. FORINTEK Canada Corp.

Harbour Commissions

15. Fraser River Harbour Commission
16. The Hamilton Harbour Commissioners

17. Thunder Bay Harbour Commission
18. Nanaimo Harbour Commission
19. North Fraser Harbour Commission
20. Oshawa Harbour Commission
21. Port Alberni Harbour Commission
22. The Toronto Harbour Commissioners
23. Windsor Harbour Commission

24. Hockey Canada Inc.
25. International Fisheries Commissions Pension Society
26. Last Post Fund
27. Maritime Forestry Complex Corp.
28. Medical Council of Canada
29. The Nature Trust of British Columbia
30. National Sport and Recreation Centre, Inc.
31. Oo-Za-We-Kwun Centre Inc. (inactive)
32. PARTICIPaction
33. POS Pilot Plant Corporation
34. Roosevelt Campobello International Park Commission
35. Saint John Harbour Bridge Authority
36. Terry Fox Humanitarian Award Inc.
37. Trustees of the Olympic Endowment Fund
38. The Vanier Institute of the Family
39. Western Grains Research Foundation
40. XV Winter Games Organizing Committee (OCO'88)
41. Northern Native Fishing Corporation

3.4 INTERNATIONAL ORGANIZATIONS

Corporate entities created pursuant to international agreements where Canada has a right to appoint or elect members to a governing body.

1. African Development Bank

2. African Development Fund
3. Asian Development Bank
4. Caribbean Development Bank
5. Commonwealth War Graves Commission
6. Inter American Development Bank
7. International Bank for Reconstruction and Development
8. International Boundary Commission
9. International Development Association
10. International Finance Corporation
11. International Fund for Agricultural Development
12. International Joint Commission
13. International Monetary Fund

APPENDIX 'A'

Additions/Deletions to Part II Listings
July 31, 1986 — July 31, 1987

Name	Change	Notes
107744 Canada Inc.	Deleted	Petro-Canada
152160 Canada Inc.	Added	Air Canada
153333 Canada Inc.	Added	Air Canada
346877 Ontario Ltd.	Added	Petro-Canada
Aerospace Realties (1986) Ltd.	Added	Air Canada
Air Canada Services Inc.	Deleted	Air Canada
Air Ontario Holdings Inc.	Deleted	Air Canada
Air Ontario Inc.	Added	Air Canada
AirBC Limited	Added	Air Canada
Aircraft Finance Limited	Deleted	Air Canada
Aircraft Finance Limited, Ireland	Added	Air Canada
Aircraft Finance Limited, United Kingdom	Added	Air Canada
Alberta Products Pipeline Ltd.	Added	Petro-Canada
Aviation Finance Limited	Added	Air Canada
Avitas Inc.	Added	Air Canada
British Commonwealth International Newsfilm Agency Limited	Deleted	Canadian Broadcasting Corporation
The Canadian Co-operative Implements Limited	Deleted	Sold
Canadair Challenger Inc.	Deleted	Canada Development Investment Corporation
Canadair Financial Corporation	Deleted	Canada Development Investment Corporation
Canadair International Limited	Deleted	Canada Development Investment Corporation
Canadair Limited	Deleted	Canada Development Investment Corporation
Canadair Services Limited	Deleted	Canada Development Investment Corporation
Canertech Conservation Inc.	Deleted	Petro-Canada
Canertech Conservation (N.B.—P.E.I.) Inc.	Deleted	Petro-Canada
Canertech Conservation (N.S.) Inc.	Deleted	Petro-Canada
Canertech Conservation (Ontario) Inc.	Deleted	Petro-Canada
Canstar Oil Sands Ltd.	Added	Petro-Canada
Cape Breton Offshore Fabricators Limited	Deleted	Cape Breton Development Corporation
Carnduff Gas Limited	Added	Petro-Canada
Cartierville Financial Corporation	Added	Canada Development Investment Corporation
Challenger Aviation Service GmbH	Deleted	Canada Development Investment Corporation
Coastal Transport Limited	Deleted	Canadian National Railway Company
Coastal Transport Limited	Added	Marine Atlantic Inc.
Cross Canada Flights Ltd.	Deleted	Air Canada
Eastern Carbide Tools Limited	Deleted	Cape Breton Development Corporation
European Expidite Limited, United Kingdom	Added	Air Canada
Extra Executive Transport Gmbh	Added	Air Canada
FORINTEK Canada Corp.	Added	Created 1979—omitted from previous listing
Foothills Engineering Ltd.	Added	Petro-Canada
Foothills Oil Pipe Line Ltd.	Added	Petro-Canada

Name	Change	Notes
Foothills Pipe Lines (Alta.) Ltd.	Added	Petro-Canada
Foothills Pipe Lines Ltd.	Added	Petro-Canada
Foothills Pipe Lines (North B.C.) Ltd.	Added	Petro-Canada
Foothills Pipe Lines (North Yukon) Ltd.	Added	Petro-Canada
Foothills Pipe Lines (Sask.) Ltd.	Added	Petro-Canada
Foothills Pipe Lines (South B.C.) Ltd.	Added	Petro-Canada
Foothills Pipe Lines (South Yukon) Ltd.	Added	Petro-Canada
Foothills Pipe Lines (Yukon) Ltd.	Added	Petro-Canada
GPA Airbus 320 Limited	Added	Air Canada
GPA Finance Limited	Added	Air Canada
GPA Fokker 100 Limited	Added	Air Canada
GPA Fokker 100 (NA) N.V.	Added	Air Canada
GPA Jetprop Inc.	Added	Air Canada
GPA Jetprop Limited	Added	Air Canada
Guiness Peat Aerospace Limited, United Kingdom	Added	Air Canada
Guiness Peat Aerospace Limited, Ireland	Added	Air Canada
Hunter Enterprises Orillia Limited	Deleted	Petro-Canada
Innotech Aviation Enterprises Ltd.	Added	Air Canada
Innotech Aviation Inc.	Added	Air Canada
Innotech Aviation Industries (1986) Ltd.	Added	Air Canada
Innotech Aviation Ltd.	Deleted	Air Canada
Innotech Aviation Nfld. Ltd.	Deleted	Air Canada
Inter B.C. Gas Transmission Ltd.	Added	Petro-Canada
Island & Coastal Natural Gas Co. Ltd.	Added	Petro-Canada
Joseph Elie Limited	Deleted	Petro-Canada
Kanata Hotels International Inc.	Added	Petro-Canada
Laxfuel Corporation	Added	Air Canada
Lax Two Corp	Added	Air Canada
Les Huiles Desroches Inc.	Added	Petro-Canada
Marine Atlantic Inc.	Deleted	Canadian National Railway Company
Marine Atlantic Inc.	Added	Parent Crown corporation
Maritime Forestry Complex Corp.	Added	Created 1980—omitted from previous listing
Montreal Pipe Line Limited	Added	Petro-Canada
Nanisivik Mines Limited	Deleted	Sold
National Parks Citizens Committee Inc.	Deleted	Charter surrendered December 31, 1986
Newfoundland Dockyard Company	Added	Marine Atlantic Inc.
News Film Services Limited	Deleted	Canadian Broadcasting Corporation
Northern Native Fishing Corporation	Added	Created 1982 – omitted form previous listing
Northwood Pulp and Timber Limited	Added	Petro-Canada
Nova, An Alberta Corporation	Deleted	Petro-Canada
OCRA Communications Inc.	Deleted	Canadian National Railway Company
Oil Spill Response Limited	Added	Petro-Canada
Pacific Petrochemicals Limited	Deleted	Petro-Canada
Pacific Petroleums (Overseas) Limited	Deleted	Petro-Canada
Panco Corporation	Added	Air Canada
Petro-Canada Youth Inc.	Added	Petro-Canada
Saint John Port Corporation	Added	Parent Crown Corporation
Saratoga Processing Company Limited	Added	Petro-Canada
Sparfil International Inc.	Deleted	Petro-Canada
Teleglobe Canada	Deleted	Assets sold

Name	Change	Notes
Teleglobe Canada Limited	Deleted	Sold
Télévision St. François Inc.	Deleted	Canadian Broadcasting Corporation
Toronto Credits Limited	Added	Petro-Canada
Trans-Northern Pipelines Inc.	Added	Petro-Canada
TransTiger Corporation	Added	Air Canada
Trustees of the Olympic Endowment Fund	Added	Created 1985 – omitted from previous listing
House of Brougham Limited	Added	Petro-Canada
Valera Electronics Inc.	Deleted	Petro-Canada
Vancal Properties Ltd.	Added	Petro-Canada
Venezuelan Canadian Oils, C.A.	Deleted	Petro-Canada
Venezuelan Pacific Petroleums, C.A.	Deleted	Petro-Canada
Viatec Resource Systems, Inc.	Deleted	Petro-Canada
W.T. Investments Inc.	Added	Petro-Canada
Wayfare Restaurants Limited	Added	Petro-Canada
Westcoast Diversified Industries Ltd.	Added	Petro-Canada
Westcoast Petroleum Ltd.	Added	Petro-Canada
Westcoast Transmission Company (Alberta) Ltd.	Added	Petro-Canada
Westcoast Transmission Company Inc.	Added	Petro-Canada
Westcoast Transmission Holdings Ltd.	Added	Petro-Canada
Westsat Limited	Deleted	Air Canada
Westsat Limited	Deleted	Air Canada
Cable North Microwave Limited	Added	Canadian Broadcasting Corporation
Canadian Roxy Petroleum	Added	Petro-Canada
Chalut Transport (1974) Inc.	Deleted	Canadian National Railway Company
Dover Petroleum Inc.	Added	Petro-Canada
Express Dorchester Inc.	Deleted	Canadian National Railway Company
Foothills Pipelines (North B.C.) Ltd.	Added	Petro-Canada
Pacific Northern Gas Ltd.	Added	Petro-Canada
PNG Marketing Inc.	Added	Petro-Canada
Texas Pacific Oil Canada Ltd.	Added	Petro-Canada
Transport Route Canada Inc.	Deleted	Canadian National Railway Company
Westcoast Energy Ltd.	Added	Petro-Canada
Westcoast Resources Inc.	Added	Petro-Canada

4. CORPORATE INFORMATION

4.1 JOINT (J) AND MIXED (M) ENTERPRISES—CORPORATIONS WITH SHARE CAPITAL WHICH ARE OWNED JOINTLY WITH ANOTHER LEVEL OF GOVERNMENT AND/OR OTHER ORGANIZATIONS

Name of Corporation	Type	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End/ Total Assets (A)/ Liabilities (L)	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Canada Development Corporation	M	Suite 200 444 Yonge Street Toronto, Ontario M5B 2H4	Minister of State (Privatization)	1971, Canada Development Corporation Act, superseded by 1985 Canada Development Corporation Reorganization Act	December 31/86 A = $6,324.3M L = $5,161.8M	Thorne, Ernst & Whinney	To develop and maintain strong Canadian controlled and managed corporations in the private sector; to widen the investment opportunities open to Canadians; to operate profitably and in the best interest of all the shareholders.	10.1%
Canarctic Shipping Company Limited	M	Suite 809 350 Sparks Street Ottawa, Ontario K1R 7S8	Transport	1975, Canada Corporations Act	December 31/86 A = $37.2M L = $42.6M	Coopers & Lybrand	To acquire, sell, lease, charter and otherwise deal in and with ships of every description, and to do all other things necessary or incidental thereto.	51%
Cooperative Energy Corporation	M	2000, 530-8 Avenue S.W. Calgary, Alta. T2P 3S8	Energy, Mines and Resources	1982, Cooperative Energy Act	December 31/86 A = $179.6M L = $69.7M	Touche, Ross & Co.	To operate an energy corporation whose primary activity is to explore and develop new Canadian oil and gas resources./To bring together a number of co-operative financial, agricultural, service and marketing institutions to participate in the Canadian oil and gas industry.	25%
Lower Churchill Development Corporation Limited	J	P.O. Box 9100 St. John's, Nfld. A1A 2X8	Energy, Mines and Resources	1978, Newfoundland Companies Act	December 31/86 A = $30.2M L = $95,000	Clarkson Gordon & Co.	To establish a basis for the development of all or part of the hydroelectric potential of the Lower Churchill basin and the transmission of this energy to markets.	49%
Mohawk St. Régis Lacrosse Ltd.	M	c/o Honeywell, Wotherspoon 500-90 Sparks Street Ottawa, Ontario K1P 5B4	Indian Affairs and Northern Development	1975, Business Corporations Act of Ontario	August 31/83 (Inactive)	N/A	To acquire assets of an insolvent lacrosse stick manufacturing company located on St. Régis Reserve, Cornwall Island.	(inactive)
National Sea Products Ltd.	M	1959 Upper Water Street Halifax, N.S. B3J 3B7	Minister of State (Privatization)	1953, Nova Scotia Companies Act	December 28/86 A = $288.4M L = $205.8M	Clarkson, Gordon & Co.	The processing and marketing of fish, seafoods and fish by-products ./ Restructuring the Atlantic fisheries. (Shares are held by N.S. Holdco)	19.6%

Name of Corporation	Type	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End/ Total Assets (A)/ Liabilities (L)	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Newfoundland and Labrador Development Corporation Limited	J	136 Crosbie Road Viking Building St. John's, Nfld. A1B 3K3	Regional Industrial Expansion	1973, Newfoundland Companies Act	March 31/87 A = $34.2M L = $34.2M	Clarkson, Gordon & Co.	To assist small- and medium-sized businesses in Newfoundland and Labrador through loan and equity financing, management advisory services, and other related services.	40%
North Portage Development Corporation	J	1100-444 St. Mary Avenue Winnipeg, Man. R3C 3T1	Regional Industrial Expansion	1983, Manitoba Corporations Act	March 31/87 A = $63.4M L = $3.7M	Coopers & Lybrand	To foster the social and economic development of the North Portage area in the core area of Winnipeg./Under the Special Recovery Capital Projects, stimulating economic recovery in Canada and Manitoba.	33.3%
NPM Nuclear Project Managers Canada Inc.	M	620 Dorchester Blvd. West Montreal, Que. H3B 1N8	Energy, Mines and Resources	1982, Canada Business Corporations Act	March 31/86 (Inactive)	N/A	Nuclear Project and Construction Management./To transfer this activity to the private sector.	13.34%
N.S. Holdco Ltd.	M	c/o Cox, Downie Goodfellow Suite 1100 1959 Upper Water Street Halifax, N.S. B3J 3E5	Minister of State (Privatization)	1983, Canada Business Corporations Act, continued under the 1984, Nova Scotia Companies Act	December 31/86 A = $118.9M L = $.3M	Thorne, Ernst & Whinney	To hold the assets owned by Canada and the Bank of Nova Scotia, including Canada's and the Bank of Nova Scotia's shares in National Sea Products Limited./Restructuring the Atlantic fisheries.	38%
Société Inter-Port de Québec	J	Suite 802 1126, chemin St-Louis Place Sillery Sillery, Que. G1S 1E5	Regional Industrial Expansion	1974, Special Act of the Government of Quebec	March 31/87 A = $3.9M L = $25,000	Poissant Richard, Thorne Riddell & Co.	To develop and implement plans and programs for an industrial complex, using the infrastructure of the Quebec harbour, and contributing to the development of that same infra- structure.	40%
Telesat Canada	M	333 River Road Vanier, Ontario K1L 8B9	Communications	1969, Telesat Canada Act	December 31/86 A = $373.8M L = $213.5M	Peat, Marwick, Mitchell & Co.	To establish multi-purpose satellite telecommunication systems.	50%*
125459 Canada Ltd.	M	c/o Cox, Downie Goodfellow Suite 1100 1959 Upper Water Street Halifax, N.S. B3J 3E5	Minister of State (Privatization)	1983, Canada Business Corporations Act	December 31/86 A = $158.4M L = NIL	Thorne, Ernst & Whinney	Jointly owned by Canada, Newfoundland and the Bank of Nova Scotia./Restructuring the Atlantic fisheries.	62.5%

* Excludes 3.75% held by CN.

Notes

Under terms of the *Bankruptcy Act*, the Superintendent of Bankruptcy has received shares in the following corporations in lieu of a cash levy payable to the Crown:

Prestige Poultry Products Ltd.
Mount Nansen Mines Ltd.
Geoform Designs Inc.
Captain Scotts Fish & Chips (1978) Ltd.
Romfield Building Corporation Ltd.
Dreco Energy Services
International Hydrodynamics Co. Ltd.
Wilanour Resources Ltd.
Blake Resources
Totran Services Ltd.
House of Brougham Ltd.
Equity Capital Investments Ltd.

4.2 OTHER ENTITIES— CORPORATE ENTITIES WITHOUT SHARE CAPITAL FOR WHICH THE GOVERNMENT OF CANADA HAS A RIGHT TO APPOINT MEMBERS TO THE BOARDS OF DIRECTORS

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Agricultural Products Board	Room 3115 Sir John Carling Bldg. Ottawa, Ont. K1A 0C5	Agriculture	1951, Agricultural Products Board Act	March 31	Auditor General of Canada	To buy, sell or import agricultural products. It may purchase and hold commodities for later sale, emergency relief in Canada or assistance programs abroad.	N/A
Asia-Pacific Foundation of Canada	Room 666 999 Canada Place Vancouver, B.C. V6C 3E1	Secretary of State for External Affairs	1984, Asia-Pacific Foundation of Canada Act	June 30	Coopers and Lybrand	To develop closer ties between the peoples and institutions of Canada and the peoples and institutions of the Asia-Pacific region.	N/A
Army Benevolent Fund	Veterans Affairs Bldg. 284 Wellington Street Ottawa, Ont. K1A 0P4	Veterans Affairs	1947, Army Benevolent Fund Act	March 31	Auditor General of Canada	To provide grants and other financial assistance to Second World War veterans, or their dependants./Profits from services operated for the benefit of the Canadian Army during the Second World War were allocated to the Army Benevolent Fund for disbursement.	N/A
Association for the Export of Canadian Books	Suite 1101 1 Nicholas St. Ottawa, Ont. K1N 7B7	Communications	1972, Canada Corporations Act	March 31	Robert B. Shortly	To assist in expanding the export of Canadian published books.	N/A
The Blue Water Bridge Authority	Bridge Street Point Edward, Ont. N7T 7H7	Transport	1964, Blue Water Bridge Authority Act	August 31	William J. Hipple	To hold, operate, maintain and repair the Canadian portion of the Blue Water Bridge which links Point Edward, Ontario and Port Huron, Michigan, USA, across the St. Clair River.	N/A
Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children	Queen Elizabeth II Canadian Research Fund Jeanne Mance Bldg. Tunney's Pasture Ottawa, Ont. K1A 0W9	Health and Welfare[1]	1959, Queen Elizabeth II Canadian Research Fund Act	March 31	Auditor General of Canada	The furthering of research into the diseases of children and the prevention and cure of such diseases.	N/A
Buffalo and Fort Erie Public Bridge Authority	The Peace Bridge Peace Bridge Plaza, Buffalo, N.Y. 14213 U.S.A.	Finance	1934, Buffalo and Fort Erie Public Bridges Company Act	December 31	Arthur Young & Co.	To construct, maintain and operate a bridge across the Niagara River between Buffalo, New York and Fort Erie, Ontario.	N/A
Calgary Olympic Development Association	Canada Olympic Park Sub P.O. 55 Calgary, Alta. T3B 0H0	Health and Welfare[2]	1979, Societies Act of Alberta	March 31	Vennard, Johannesen and Co.	To foster the development of Canadian athletics; to administer the Olympic Endowment Funds; and to operate and maintain the Canada Olympic Park.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Canadian Fitness and Lifestyle Research Institute Inc.	Suite 200 47 Clarence Street Ottawa, Ontario K1N 9K1	National Health and Welfare	1980, Canada Corporations Act	March 31	Deloitte, Haskins and Sells	To collect, interpret and disseminate information pertaining to the fitness levels of Canadians.	N/A
Canada Grains Council	Suite 760 360 Main Street Winnipeg, Man. R3C 3Z3	Minister of State for Grains and Oilseeds	1969, Canada Corporations Act	March 31	Thorne, Ernst & Whinney	To provide a forum in which Council members representing all facets of the grain industry could discuss mutual problems, study particular issues and provide advice to the government.	N/A
Canadian International Grains Institute	1000-303 Main St. Winnipeg, Man. R3C 3G7	International Trade	1972, Canada Corporations Act	March 31	Deloitte, Haskins & Sells	To offer courses in grain technology and handling to influential foreign participants in the field to develop existing and potential markets abroad for Canadian grains and oilseeds./ Promotional tool for the export of Canadian grain, oilseeds and products.	N/A
Coaching Association of Canada	B-10 333 River Road Vanier, Ont. K1L 8H9	Health and Welfare	1970, Canada Corporations Act	March 31	Ouseley and Angus	To provide programs, services and publications to improve coaching effectiveness throughout Canada.	N/A
Forest Engineering Research Institute of Canada	143 Place Frontenac Pointe Claire, Que. H9R 4Z7	Minister of State Forestry and Mines	1986, Canada Corporations Act	December 31	Touche, Ross & Co.	To carry out research and development projects to demonstrate practical measures for increasing the efficiency of wood harvesting in Canada.	N/A
FORINTEK Canada Corp.	6620 N.W. Marine Dr. Vancouver, B.C. V6T 1X2	Minister of State Forestry and Mines	1979, Canada Corporations Act	March 31	Touche, Ross & Co.	To carry out research and development activities in solid wood products and provide specialized advice on forest products to the federal government.	N/A
Fraser River Harbour Commission	Suite 505 713 Columbia Street New Westminster, B.C. V3M 1B2	Transport	1913, New Westminster Harbour Commissioners Act	December 31	Thorne, Riddell & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Hamilton Harbour Commissioners	605 James Street North Hamilton, Ont. L8L 1K1	Transport	1912, Hamilton Harbour Commissioners Act	December 31	Spicer, McGillivray & Co.	To regulate and control navigation and all works and operations within the harbour.	N/A
Hockey Canada Inc.	c/o Olympic Saddledome P.O. Box 1060 Calgary, Alta. T2P 2K8	Health and Welfare	1969, Canada Corporations Act	March 31	Clarkson, Gordon & Co.	To support national hockey teams representing Canada in international competition and to support generally the playing of hockey in Canada.	N/A

International Fisheries Commissions Pension Society	c/o Treasury Board of Canada L'Esplanade Laurier West Tower 300 Laurier Street Ottawa, Ont. K1A 0R5	Fisheries and Oceans	1970, Canada Corporations Act	September 30	Auditor General of Canada	To arrange for and administer the provision of pensions and insurance for the employees of any international fisheries commission, whose seat or headquarters is in any country established and maintained by Canada or the U.S., or both.	N/A
Last Post Fund	Suite 921 685 Cathcart St. Montreal, Que. H3B 1M7	Veterans Affairs	1922, Federal Charter	March 31	Audit Services Bureau	To ensure that qualified veterans receive dignified burials.	N/A
Maritime Forestry Complex Corp.	Hugh John Flemming Forestry Centre RR #10, Fredericton, N. B. E3B 6H6	Minister of State Forestry and Mines	1980, Maritime Forestry Complex Corporation Act, New Brunswick	March 31	Thorne, Ernst & Whinney	To establish a Maritime Provinces Regional Forestry Complex.	N/A
Medical Council of Canada	1867 Alta Vista Dr. P.O. Box 8234 Ottawa, Ont. K1G 3H7	National Health and Welfare	1912, Canada Medical Act	December 31	Thorne, Ernst & Whinney	To promote and effect the establishment of a qualification in medicine, such that the holders thereof shall be acceptable and empowered to practice in all the provinces of Canada.	N/A
Nanaimo Harbour Commission	P.O. Box 131 104 Front Street Nanaimo, B.C. V9R 5K4	Transport	1960, Harbour Commissions Act	December 31	Bestwick and Partners	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Nature Trust of British Columbia	909-100 Park Royal South West, Vancouver, B.C. V7T 1A2	Prime Minister	1971, Canada Corporations Act	December 31	Thorne, Ernst & Whinney	To purchase and preserve ecologically important parcels of land in B.C.	N/A
National Sport and Recreation Centre, Inc.	333 River Road Vanier, Ont. K1L 8H9	National Health and Welfare	1974, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To assist organizations concerned with the development of Canadian sport and recreation by providing support services in the area of administration and promotion.	N/A
North Fraser Harbour Commission	2020 Airport Road Richmond, B.C. V7B 1C6	Transport	1913, North Fraser Harbour Commissioners Act	December 31	Dunwoody & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Northern Native Fishing Corporation	P.O. Box 876 4-214 Third Ave. West, Prince Rupert, B.C. V8J 3Y1	Indian Affairs and Northern Development	1982, British Columbia Companies Act	January 31	Arthur Andersen & Co.	To ensure preservation of a fleet of fishing vessels and related licences for the long-term benefit of native fishermen.	N/A
Oo-Za-We-Kwun Centre Inc.	c/o Frank E. Price and Associates Suite 105 62 Margrove Street Winnipeg, Man. R3C 1N1	Indian Affairs and Northern Development	1971, Manitoba Companies Act	March 31	(inactive)	To provide training for Native people.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
Oshawa Harbour Commission	1050 Farewell Ave. Oshawa, Ont. L1H 6N6	Transport	1961, Oshawa Harbour Commissioners Act	December 31	K.R. Craven	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
PARTICIPaction	40 Dundas St. West Suite 220 Toronto, Ont. M5G 2C2	Health and Welfare	1971, Canada Corporations Act	March 31	Peat, Marwick, Mitchell and Co.	To inform Canadians about the positive benefits of physical fitness and to motivate them to adopt healthy, physically active lifestyles.	N/A
POS Pilot Plant Corporation	118 Veterinary Rd. Saskatoon, Sask. S7N 2R4	Minister of State for Grains and Oilseeds	1973, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To increase processing of grains and oilseeds into marketable products./To encourage and promote the development and increase of value-added agriculturally based products for domestic and export consumption.	N/A
Port Alberni Harbour Commission	P.O. Box 99 2750 Harbour Road Port Alberni, B.C. V9Y 7M6	Transport	1947, Harbour Commissions Act	December 31	Newman Hill, Duncan & Lacoursière	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Roosevelt Campobello International Park Commission	P.O. Box 9 Welshpool, Campobello Island N.B. E0G 3H0	Secretary of State for External Affairs	1964, The Roosevelt Campobello International Park Commission Act	December 31	Brooks and Carter	To administer as a memorial the Roosevelt Campobello International Park.	N/A
Saint John Harbour Bridge Authority	P.O. Box 6176 Station A Saint John, N.B. E2L 4R6	Finance	1962, Statute passed by Province of N.B.	March 31	Touche, Ross & Co.	To construct a bridge across the Harbour of Saint John, and to enter into agreement with federal, provincial and municipal governments, persons or corporations respecting the financing and construction of such bridge.	N/A
Terry Fox Humanitarian Award Inc.	711-151 Sparks St. Ottawa, Ont. K1P 5E3	Health and Welfare	1982, Canada Corporations Act	April 30	Touche, Ross & Co.	To encourage Canadian youth to seek high ideals as represented by Terry Fox by granting commemorative scholarships.	N/A
Thunder Bay Harbour Commission	P.O. Box 2266 Thunder Bay, Ont. P7B 5E8	Transport	1958, Lakehead Harbour Commissioners Act	December 31	Clarkson, Gordon & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Toronto Harbour Commissioners	60 Harbour Street Toronto, Ont. M5J 1B7	Transport	1911, Toronto Harbour Commissionners Act	March 31	Thorne, Riddell & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Vanier Institute of the Family	120 Holland Ave. Ottawa, Ont. R1X 0X6	Prime Minister	1965, Canada Business Corporations Act	December 31	Coopers & Lybrand	To promote the spiritual and material well-being of Canadian families and to study their social, physical, mental, moral and financial environment and characteristics.	N/A

Western Grains Research Foundation	Suite 1101 75 Albert Street Ottawa, Ont. K1P 5E7	Agriculture	1981, Canada Corporations Act	December 31	G.A. Welch and Company	To help with improving the productivity and profitability of grains and oilseeds production in the prairie provinces.	N/A
Windsor Harbour Commission	500 Riverside Drive West Windsor, Ont. N9A 5K6	Transport	1957, Windsor Harbour Commissioners Act	December 31	Peat, Marwick & Mitchell	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
XV Winter Games Organizing Committee (OCO'88)	P.O. Box 1988 Station C Calgary, Alta.	Health and Welfare[3]	1982, Canada Corporations Act	March 31	Coopers & Lybrand	To raise, receive and maintain a fund in support of the XV Olympic Games./To support the planning and staging of the XV Olympic Games.	N/A
Trustees of the Olympic Endowment Fund	Government of Canada Office for the 1988 Olympic Winter Games Harry Hays Bldg. 220-4th ave. S. E. Calgary, Alta. T2P 3C3	Health and Welfare	1985, Olympic Trust Fund Document[4]	March 31	Vennard Johannesen & Co.	Promoting Canadian high-performance amateur sport and such other charitable purposes as the trustees appoint from time to time.	N/A

1 The directors of the Board are "appointed by Her Majesty by Commission under the Great Seal".

2 Two directors appointed by the Minister of State, Fitness and Amateur Sport who has received delegated authority from the Minister of Health and Welfare.

3. Federal appointment is made by the Minister of State for Fitness and Amateur Sport.

4. Not a corporate entity.

4.3 INTERNATIONAL ORGANIZATIONS— CORPORATE ENTITIES CREATED PURSUANT TO INTERNATIONAL AGREEMENTS TO WHICH CANADA HAS A RIGHT TO APPOINT OR ELECT MEMBERS TO A GOVERNING BODY

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
African Development Bank	01 P.O. Box 1387 Abidjan 01 Ivory Coast Africa	Secretary of State for External Affairs	1963, Agreement signed by member countries	December 31	Akintola Williams & Co.	To contribute to the acceleration of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	3.2%
African Development Fund	01 P.O. Box 1387 Abidjan 01 Ivory Coast Africa	Secretary of State for External Affairs	1972, Agreement signed by member countries	December 31	Deloitte, Haskins & Sells	To assist the African Development Bank in making an increasingly effective contribution to the economic and social development of the Bank members. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	9.45%
Asian Development Bank	P.O. Box 789 Manila, The Philippines	Secretary of State for External Affairs	1965, Agreement signed by member countries	December 31	Deloitte, Haskins & Sells	To lend funds, promote investments and provide technical assistance to developing countries, and generally to foster economic growth in the Asian Region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	5.8%
Caribbean Development Bank	P.O. Box 408 Wildey, St. Michael Bridgetown, Barbados	Secretary of State for External Affairs	1969, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the harmonious economic growth and development of the member countries and integration among them, having special and urgent regard to the needs of the less developed members of the region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	11.9%
Commonwealth War Graves Commission	2 Marlow Road Maidenhead, Berks. U.K. Sl6 7DX	Veterans Affairs	1917, Royal Charter	March 31	Deloitte Haskins & Sells	To mark and maintain graves and memorials and keep records of the members of the Forces of the Commonwealth who died in the two World Wars.	N/A
Inter American Development Bank	1300 New York Ave. Washington, D.C. U.S.A. 20577	Secretary of State for External Affairs	1959, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the acceleration of the process of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	4.6%
International Bank for Reconstruction and Development	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1945, Bretton Woods Agreement Act	June 30	Price, Waterhouse & Co.	To assist in the reconstruction and development of territories of member countries.	3.2%

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage
International Boundary Commission	615 Booth Street Ottawa, Ont. K1A 0E9	Secretary of State for External Affairs	1908, Treaty 1960, International Boundary Commission Act	March 31	Auditor General of Canada	To keep the boundary vista entirely free of obstruction and plainly marked for the proper enforcement of customs, immigration, fishing and other laws of Canada and the U.S. The Commission is concerned with fixing things on the boundary line or near it, not with movement across it.	N/A
International Development Association	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1960, Articles of Agreement; 1960, International Development Association Act	June 30	Price Waterhouse & Co.	To promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world.	3.3%
International Finance Corporation	1818 H Street N.W. Washington, D.C. U.S.A. 20433	Finance	1956, Articles of Agreement; Vote 731, Appropriation Act No. 6, 1956	June 30	Price Waterhouse & Co.	To further economic development by encouraging the growth of productive enterprise in member countries, supplementing the activities of the International Bank for Reconstruction and Development.	3.7%
International Fund for Agricultural Development	107 Via Del Serafico 00142 Rome, Italy	Secretary of State for External Affairs	1976, International Agreement	December 31	Price, Waterhouse & Co.	To mobilize additional resources to be made available on concessional terms for agricultural development in member states. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	N/A
International Joint Commission	100 Metcalfe St. Ottawa, Ont. K1P 5M1	Secretary of State for External Affairs	1909, Boundary Waters Treaty Act	March 31	Auditor General of Canada	To deal with the use, obstruction and diversion of boundary waters and rivers crossing the boundary between Canada and the U.S.	N/A
International Monetary Fund	700 19th St., N.W. Washington, D.C. U.S.A. 20431	Finance	1945, Agreement Signed by Member Countries	April 30	External Audit Committee	Established to promote economic welfare by encouraging the expansion of trade, the maintenance of orderly exchange arrangements, and the reduction of balance of payments.	N/A